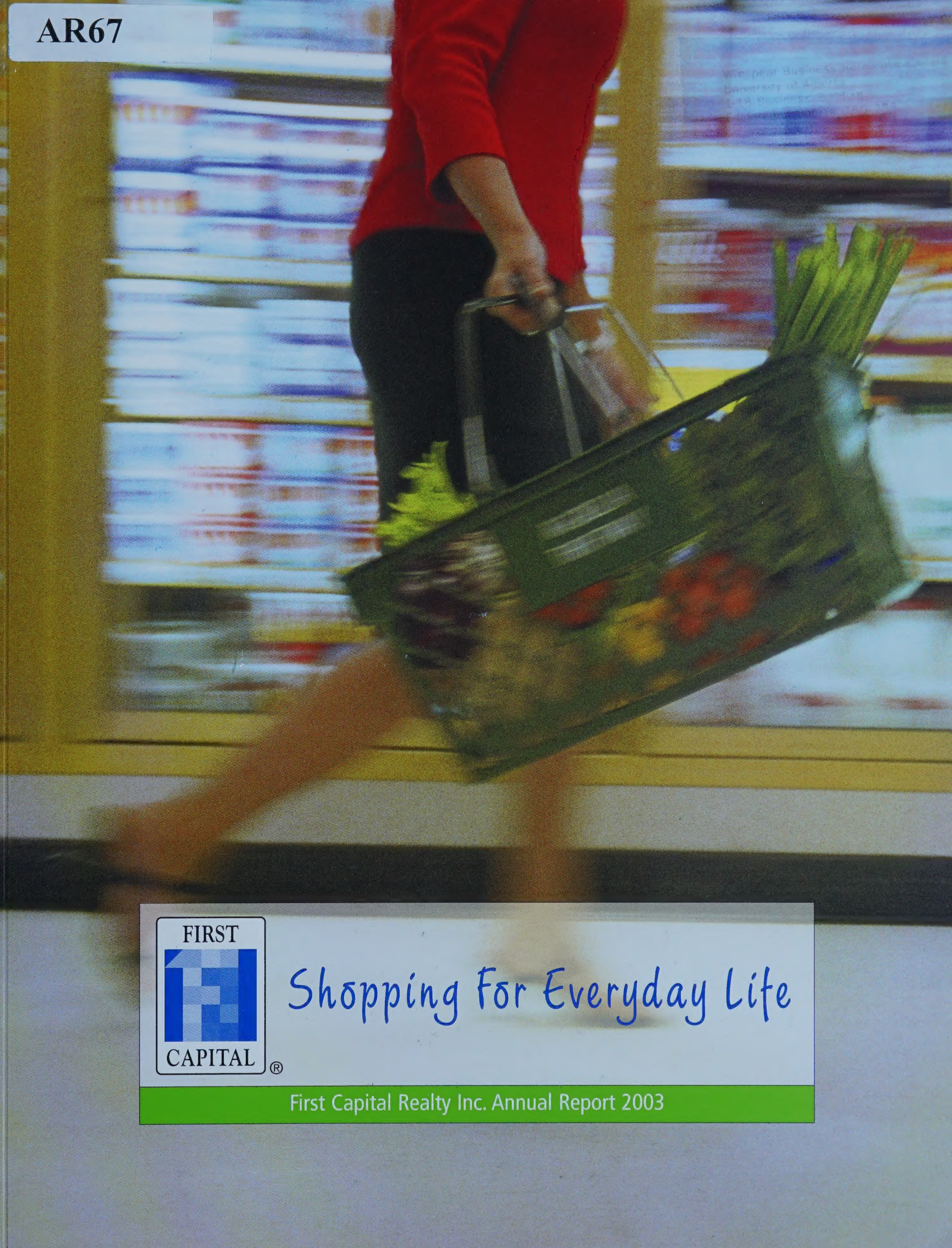


FIRST CAPITAL ®

Shopping For Everyday Life

First Capital Realty Inc. Annual Report 2003

Corporate profile

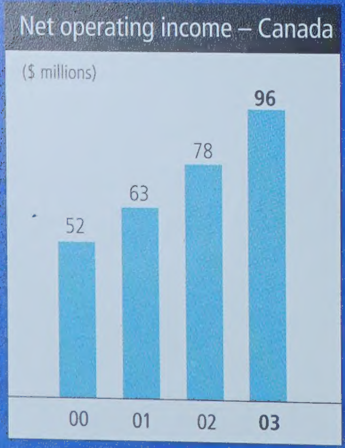
First Capital Realty Inc. (TSX: FCR) is a growth-oriented real estate corporation focused on the ownership and development of neighbourhood and community supermarket anchored shopping centres in growing Canadian metropolitan areas. First Capital is also the second largest shareholder of Equity One, Inc. (NYSE: EQY), one of the largest shopping centre REITs in the southern United States.

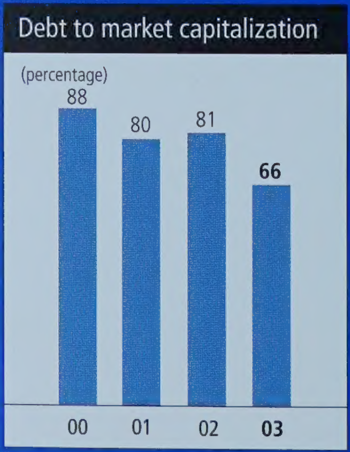
Financial highlights

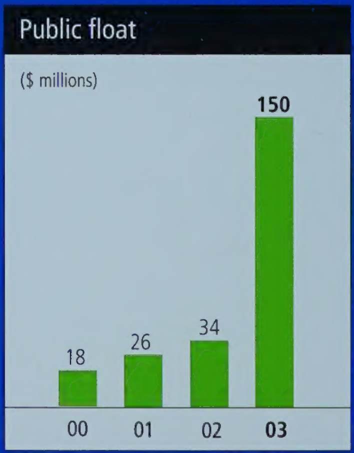
(thousands of dollars, except per share amounts)	2003	2002
RESULTS OF OPERATIONS		
Revenue	$ 157,371	$ 128,242
Funds from operations (FFO) [1]	$ 60,053	$ 43,641
FFO per diluted share [1]	$ 1.38	$ 1.33
Dividends per share	$ 1.14	$ 1.09
BALANCE SHEET		
Total assets	$ 1,538,689	$ 1,195,738
Total liabilities	$ 873,695	$ 687,982
Shareholders' equity	$ 664,994	$ 507,756
Weighted average shares outstanding – diluted	46,377,711	36,426,268

[1] prior to one-time lease termination income

Meeting our long-term objectives







Shopping for everyday life...

Think about how many times you stop to buy groceries at the supermarket, pick up a new toothbrush, razor blades and fill a

prescription

at the pharmacy, treat yourself to a cup of coffee or get some cash

from the instant teller. These daily purchases add up to hundreds of billions of dollars in North America every year. First Capital Realty owns and develops these neighbourhood and community shopping centres. **We serve the daily needs of growing urban markets.**

At a glance

Investment highlights

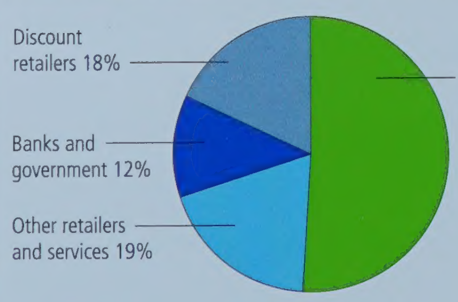
- Growth strategy applied to a low-risk sector
- High-quality, well-located portfolio
- Track record of growth through accretive acquisitions
- Strong returns from development and redevelopment activities
- Equity position in growing U.S. shopping centre REIT
- Experienced, entrepreneurial and aligned management team

Acquisition and development expenditures

$ millions	2003	2002
Acquisitions of income-producing properties	$ 253	$ 168
Acquisitions of land, development and redevelopment activity	$ 93	$ 66
Total investment	$ 346	$ 234

December 2000	April 2004	
40 properties	94 properties	↑ 135%
5.6 million square feet	11.8 million square feet	↑ 111%

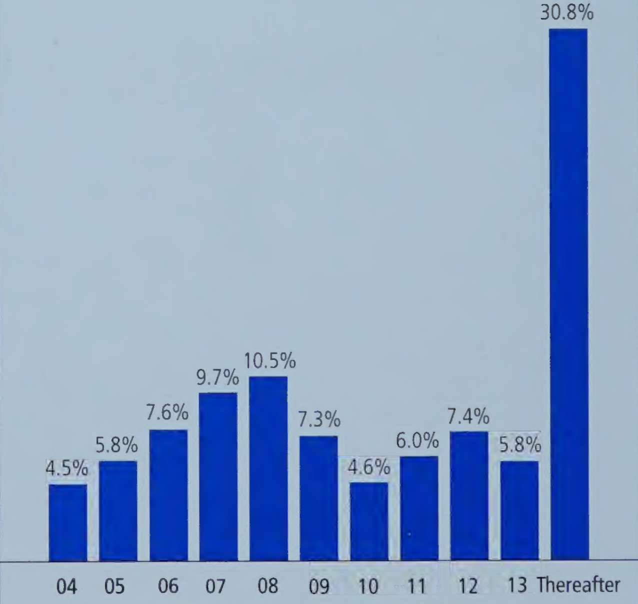
Top 25 tenants annual minimum rent by type



Top 25 tenants

1	Loblaws	13	Future Shop
2	Sobeys	14	LCBO
3	Zellers	15	Tim Hortons / Wendy's
4	Canadian Tire / Mark's Work Wearhouse	16	Royal Bank
		17	Rogers
5	Shoppers Drug Mart	18	Reitmans Group
6	Wal-Mart	19	Blockbuster
7	Canada Safeway	20	Winners
8	A&P	21	Pharma Plus
9	Metro	22	Chapters / Coles
10	CIBC	23	Pharmacie Jean Coutu
11	TD Canada Trust	24	A Buck or Two
12	Scotiabank	25	Toys 'R' Us

Lease expirations



Geographic diversification

We own a quality portfolio of supermarket anchored shopping centres in growing metropolitan areas, primarily in Ontario, Quebec and Alberta. We apply our local market knowledge and economies of scale to enhance value.

94 properties as of April 2004

ONTARIO
Ajax (2)
Brampton (2)
Brantford
Burlington
Cambridge
Hamilton
Kitchener
London (2)
Markham
Mississauga (2)
Newmarket
Oakville
Ottawa (4)
Peterborough (2)
Pickering
St. Catharines
Stratford
Tillsonburg (2)
Toronto (5)
Waterloo (2)
Whitby (2)
Windsor (2)

QUEBEC
Delson
Châteauguay
Chicoutimi
Gatineau (5)
Île Perrot (2)
Lachenaie
Laval (3)
Lévis
Longueuil (3)
Montréal (14)
Québec City (2)
Repentigny (2)
Sept-Îles
Trois-Rivières

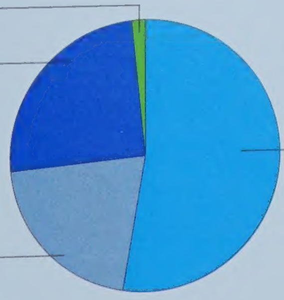
ALBERTA
Calgary (4)
Edmonton (3)
Leduc
Lethbridge
Red Deer
Sherwood Park (3)
St. Albert

SASKATCHEWAN
Regina (2)

NEWFOUNDLAND
St. John's

NOVA SCOTIA
Dartmouth

Annual minimum rent by province



Equity One – U.S. Investment, $211 million

First Capital Realty is the second largest shareholder of Equity One (18% of common equity), an owner, developer and operator of neighbourhood and community shopping centres located primarily in the southern United States.

- Strong presence in growing urban markets in Florida, Texas and Georgia
- The dominant player in Florida
- 190 properties aggregating 20.7 million sq. ft. of GLA
- Traded on the New York Stock Exchange (EQY)
- Market cap approximately US$1.2 billion
- Investment grade credit ratings from S&P and Moody's

2003 Meeting our long-term objectives

Operating and financial highlights

We expanded our portfolio. Acquisition of income-producing properties and development activities added 2.2 million square feet of gross leasable area for a total cost of $346 million.

We grew our cash flow. Portfolio growth generated a 25% increase in net operating income and a 38% rise in funds from operations, prior to one-time lease termination income.

We reduced our leverage. Capital market activities reduced our ratio of total debt to market capitalization to 66% from 81%, and increased our publicly-traded float of common shares by 243%.

Our growth was accretive. Funds from operations per common share rose 4% prior to lease termination income despite a 27% increase in the weighted average number of diluted shares.

We enhanced returns for shareholders. We increased our common share dividends in 2003. Our shareholders achieved a 40% total return in 2003.

Our U.S. Investment is creating value. With the acquisition of IRT Property Company, Equity One transformed itself into one of the largest shopping centre landlords in the southern United States and the dominant player in Florida.

Acquisition and development highlights

Gloucester City Centre

Gloucester City Centre was acquired in 2003. The centre totals 337,000 sq. ft. and is anchored by a new Loblaws, Zellers and Pharma Plus.

Tuscany Market

Tuscany Market is a newly developed shopping centre acquired in 2003. The centre totals 86,000 sq. ft. and is anchored by Sobeys and Super Drug Mart.

Brooklin Towne Centre

Brooklin Towne Centre is a new development in Whitby, Ontario. On completion the shopping centre will total over 100,000 sq. ft. and is anchored by Price Chopper and Shoppers Drug Mart.

Carrefour du Versant

Carrefour du Versant is a new development in Gatineau, Quebec to be completed in 2004. The shopping centre will be 79,000 sq. ft. and is anchored by IGA Extra.

Message to our shareholders

Neighbourhood and community shopping centres, properly managed, are one of the most stable real estate asset classes in North America as they provide consumers with their everyday basic needs such as groceries, prescription drugs, personal care items, household supplies, banking and other personal services. To capitalize on the opportunities this sector presents, First Capital Realty has been applying a highly focused growth strategy through proactive management and leasing, accretive acquisitions and selective development activities, all supported by a strong financial position.

Building New Foundations

With a very successful year in 2003 behind us, I would like to take this opportunity to review our progress since we assumed management of the Company in August 2000. After three years of hard work, I am pleased to report that we have met all of our long-term objectives – we grew our business and funds from operations, and significantly increased our equity base and the public float of our common shares, accomplishments that resulted in a much stronger balance sheet today. Looking ahead, we are confident we can continue to expand and take these objectives even further.

Dori J. Segal
President and
Chief Executive Officer

Let me put our progress into some perspective. At December 31, 2000, First Capital Realty, with all convertible debentures classified as debt, had a debt to market capitalization ratio that we believe was too leveraged at 88%. As a result of our strong operating performance and a series of capital market initiatives over the last three years, this leverage ratio was considerably reduced to 66% as at December 31, 2003. Our financial position was further strengthened with the closing of a successful $55 million common share offering in March 2004.

Since January 2001, we invested over $800 million in acquisitions and development, adding over six million square feet of gross leasable area to our Canadian portfolio through the investment in more than 50 properties in our core urban markets.

This significant growth took place while maintaining our key objective of buying well-located properties and maintaining and enhancing the quality and value of our portfolio.

Our approach

Quality assets

First Capital Realty invests in well-located shopping centres in growing urban markets that provide sustainable cash flow and long-term growth potential that will ultimately result in capital appreciation.

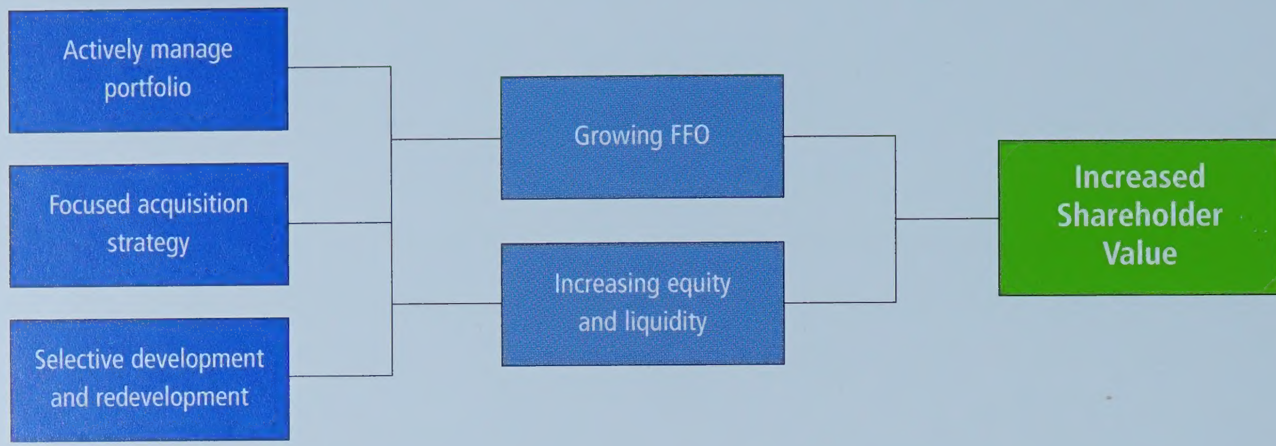
Entrepreneurial management

First Capital Realty is managed by experienced, entrepreneurial real estate professionals who have a significant interest in creating long-term value for all shareholders.

Good governance

First Capital Realty is committed to plain and full disclosure, transparency and a majority, independent Board.

Applying a growth strategy to a stable business



Along with our proactive management and leasing initiatives, the increase in the size of our Canadian portfolio also generated a 140% increase in net operating income, from $52 million in 2000 to more than $125 million forecast for 2004.

The positive impact of these activities also resulted in improved occupancy, which rose to 93.1% in our income-producing properties at December 31, 2003. In our core portfolio we see moderate improvement continuing in 2004, as well as more lease up of additional space related to properties under redevelopment.

We have also increased our cash dividends over the last three years, paying out $1.14 per common share in 2003 compared to $0.93 in 2000. First Capital Realty's common share cash dividend has increased consistently over the last decade.

Going to the Market

In addition to being extremely active on the acquisition and development front, we also successfully completed a number of capital markets transactions since 2000 that have significantly increased our equity base and the liquidity of our common shares. Through the last three years to date, over 25.0 million common shares have been issued, growing our equity market capitalization from $137 million at the end of 2000 to over $710 million and our public float from $18 million to over $200 million. It is important to note that, despite the significant 40% increase in the weighted average number of diluted common shares outstanding over the three years, funds from operations per diluted common share, prior to one-time income items, grew by an average of 4.3% annually during this period. Clearly, our growth and the significant strengthening of our balance sheet has been accretive.

A Successful U.S. Investment Strategy

In September 2001, First Capital Realty made its initial equity investment in Equity One through a tax-deferred exchange for the Company's U.S. portfolio. Equity One, a U.S. REIT traded on the New York Stock Exchange, is also focused on neighbourhood and community shopping centres with a strong presence in large and growing urban markets located primarily in Florida, Texas and Georgia. Today, Equity One owns 190 properties aggregating approximately 20.7 million square feet of gross leasable area. Its equity market capitalization was approximately US$1.2 billion at March 2004, and it has investment grade credit ratings from both Standard & Poor's and Moody's. In 2003, Equity One completed the acquisition of IRT Property Company, transforming itself into one of the largest shopping centre landlords in the southern United States and the dominant player in Florida. We currently own 18% of Equity One, and remain its second largest shareholder. Since acquiring our position in Equity One, our investment to date has generated a total pre-tax return of approximately 62%.

Going Forward

Over the last three years our attention has been focused on strengthening the Company's balance sheet and creating the financial flexibility that has allowed us to grow our business. Now we will direct our full attention to further maximizing the value of our portfolio, grow our existing business and increase funds from operations while maintaining our financial discipline. To accomplish these goals, we will continue to apply our growth strategy to what we believe is a very low risk sector of the real estate business.

Accretive acquisitions of neighbourhood and community shopping centres in our targeted urban markets will grow the size and enhance the quality of our portfolio. By building critical mass in our markets, we will generate further economies of scale and operating synergies while creating a position of influence in each market to attract the best tenants, generate stable occupancies and grow our cash flow. Three years ago the Company's portfolio was primarily concentrated in the Greater Toronto Area and Edmonton. Since then we have significantly increased our presence in the greater Montreal area, the Ottawa region and the City of Calgary. While we intend to continue to expand in all the markets where we currently operate, we will also expand our geographic diversification, targeting new urban markets in Canada, such as Quebec City and Vancouver, that meet our investment criteria.

We will continue to be proactive and invest in our properties to meet the needs of our tenants and to enhance the value of our portfolio. We believe we invest more in our assets than most other landlords in order to remain competitive. By creating a high-quality portfolio, we attract and retain the highest quality tenants.

Selective property developments and redevelopments will also remain an important element of our strategy to build value, as these investments increase our participation in growth markets and enhance the returns of our portfolio.

In Closing

Since we came aboard, good governance, transparency and full disclosure have been an important part of First Capital's corporate culture. Our Board of Directors has been comprised of a majority of independent members with fully independent Audit and Corporate Governance Committees. We are committed to maintaining high standards of governance.

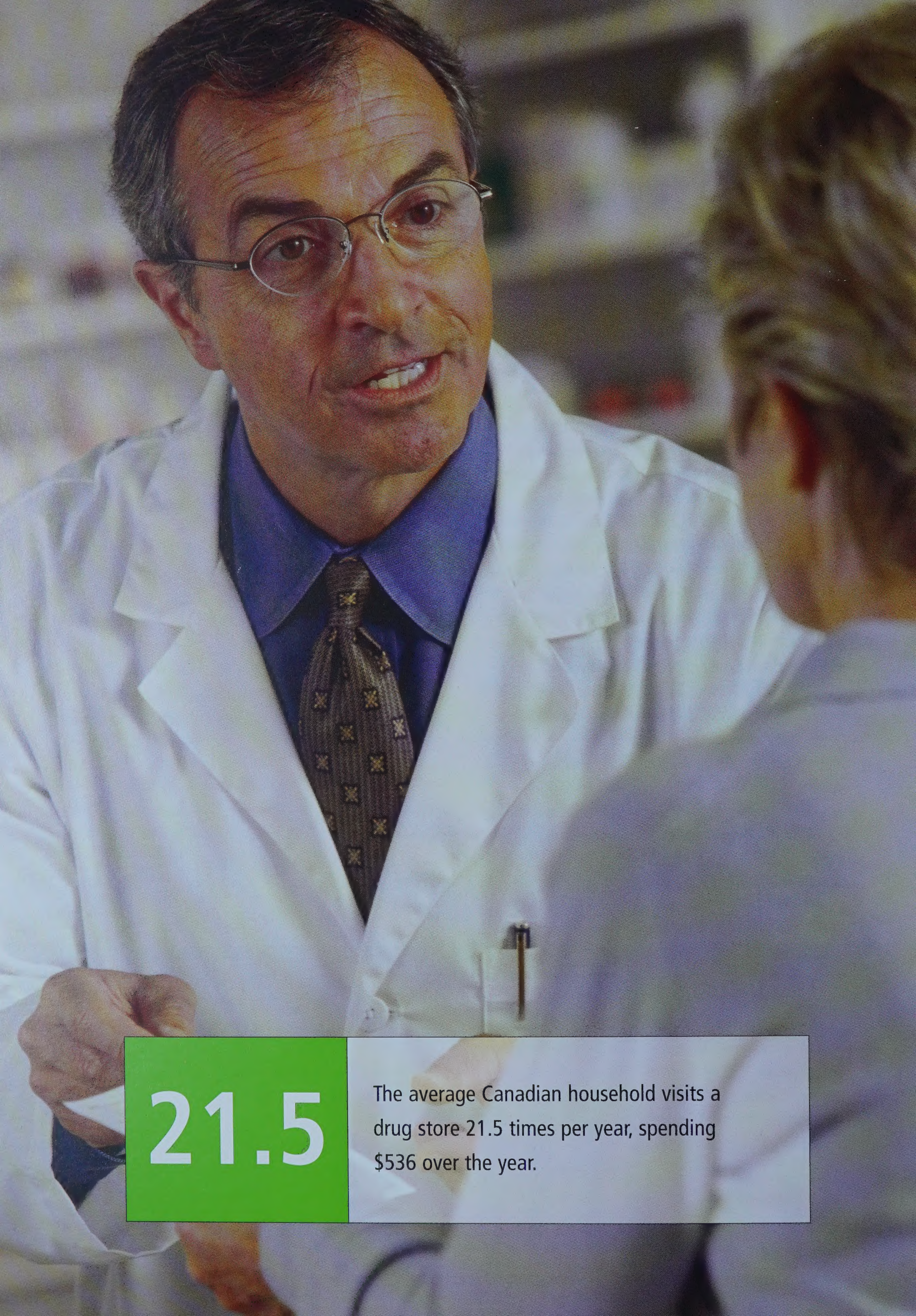
To First Capital Realty's investors, I would like to express my appreciation for your confidence. As well, I would like to thank our tenants and joint-venture partners for their support, and my fellow co-workers for their dedication and hard work. I am also pleased to welcome two new members to our senior management team, Karen Weaver, our Chief Financial Officer, and Brian Kozak, Vice President, Western Canada. Lastly, I would like to thank our Board of Directors, under the leadership of our Chairman, Chaim Katzman, for their counsel and guidance.

We will continue to focus on our long-term objectives in 2004 and believe we are well positioned to increase value for our shareholders, tenants and business partners.

Dori J. Segal
President and Chief Executive Officer
April 14, 2004

Increasing dividends per share

First Capital Realty has a consistent track record of increasing dividend payments to shareholders.



21.5

The average Canadian household visits a drug store 21.5 times per year, spending $536 over the year.

Our strategy

Proactive Management Builds Value

First Capital Realty has proven ability to add value to its properties through proactive management. This key element of our growth strategy results in value enhancements and property upgrades aimed at providing consumers with the best possible shopping experience. Specifically, we strive to create and maintain the highest standards in such elements as parking, lighting, signage, facades and access points. Knowledgeable and sophisticated retailers seek to position themselves in the best located, best operated and most visible and accessible locations. Our proactive management approach ensures our properties remain attractive to quality retailers and their customers over the long term.

A good example of our strategy in action can be seen in the upgrades at two of our properties, Byron Village in London, Ontario and Centre Commercial Van Horne in Montreal, Quebec. During 2003, we completed a renovation of the facades, installed new tenant signage and new pylon signage in each shopping centre. We also expanded the drug stores and repositioned other tenants in the centres. These initiatives have resulted in an increase in occupancy to over 95% and longer term leases.

> "Our commitment to keeping our centres at the highest operational standard is a fundamental aspect of our strategy. Investments in upgrading the quality of our centres contribute directly to our increasing occupancy." Maryanne McDougald, Director, Property and Asset Management

Active Leasing Builds Tenant Relationships

Another important part of our success is our leasing activity and our strong relationships with national, regional and local tenants. During 2003, leasing activities resulted in net new leasing totalling 581,000 square feet, including development and redevelopment projects coming on line. The positive impact of these activities resulted in an increase in occupancy to 93.1% at December 31, 2003 from 91.7% at the end of 2002. Of the 6.9% vacancy at year end, 2.0% relates to space under redevelopment.

> "Our strong relationships with major retailers contributed to the success of our value-enhancing programs and the general increase in portfolio occupancy during the year. We are committed to developing and maintaining these important tenant relationships."
> Monique Dubord, Director of Leasing

Actively Manage Portfolio

Accommodating tenant needs
- Upgrade, expand and relocate

Ongoing investment
- Facades
- Signage
- Accessibility
- Parking lots


Focused Acquisitions Build Portfolio Quality

We take a highly disciplined approach to increasing the size of our property portfolio. We acquire well-located shopping centres in growing urban markets that are anchored primarily by supermarkets and/or drug stores. We seek acquisitions that are both operationally and financially accretive to the Company, looking for benefits from economies of scale, operating synergies and the strengthening of our competitive position in all our markets.

During 2003, we invested $253 million in the acquisition of 14 income-producing properties and increasing our interests in four existing properties, adding a total of approximately 1.7 million square feet of gross leasable area to our Canadian portfolio. Four key acquisitions are highlighted below.

Focused Acquisition Strategy

- Neighbourhood and community shopping centres
- National anchor tenants that provide basic necessities
- 86 of 94 properties are supermarket or drug store anchored

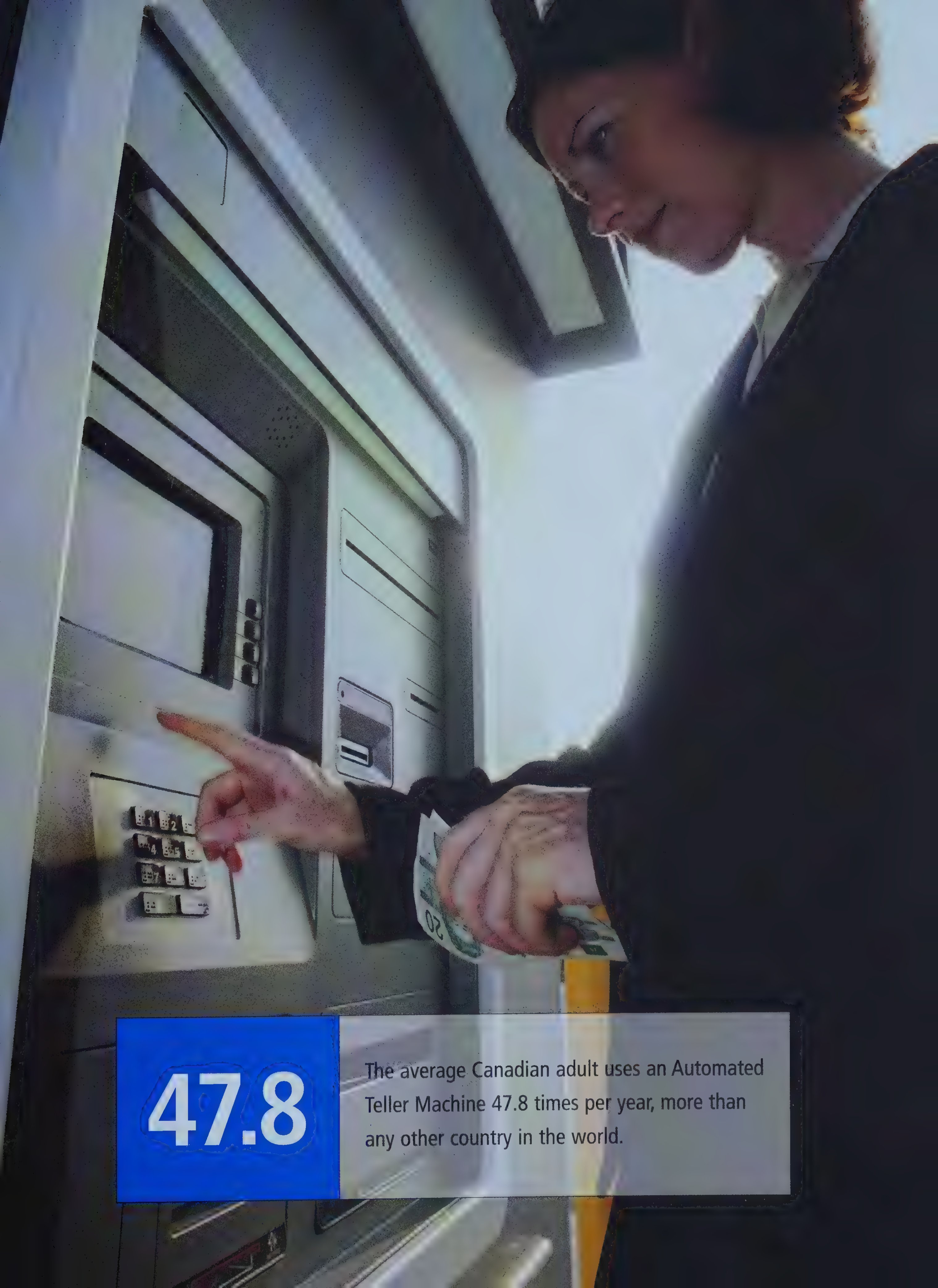
Meadowvale Town Centre is centrally located in a growing residential area of Mississauga, Ontario situated on 40 acres of land with easy access and convenient parking. Upon full completion, the property will be a 382,000 square foot community shopping centre anchored by a Dominion supermarket and a Canadian Tire store. Additional tenants in operation include Shoppers Drug Mart, LCBO, Bank of Montreal, TD Canada Trust, CIBC, The Beer Store, McDonald's, Tim Hortons, Blockbuster Video, Radio Shack and a Shell Gas Bar. These tenants provide a variety of retail and community services and in addition, the draw and traffic is greatly enhanced by the City of Mississauga Library, who is a tenant, as well as a bus transfer station at the back of the centre. National and regional tenants, including a gym and the tenants listed above, are expected to occupy approximately 283,000 square feet of space.

> "The Meadowvale Town Centre, located in the growing city of Mississauga, Ontario, was both financially and operationally accretive for our portfolio and enhances our presence in the Greater Toronto Area." Derek Hull, Director of Acquisition and Development

Gloucester City Centre is a 337,000 square foot community shopping centre well-located in Ottawa, Ontario. The centre is anchored by a new 127,000 square foot Loblaws supermarket and a newly renovated 98,000 square foot Zellers, and also, Pharma Plus, Scotiabank, CIBC, RadioShack and several other national tenants.

> "This acquisition is both financially and operationally accretive and provides long term sustainable cash flow. The Ottawa region is a very attractive, growing area and continues to be one of our strategic markets." Francois Le Rouzes, Director of Acquisition and Development

The transaction to acquire the Tuscany Market and McKenzie Towne Centre shopping centres in Calgary, Alberta is in line with our strategy to enhance our presence in



47.8

The average Canadian adult uses an Automated Teller Machine 47.8 times per year, more than any other country in the world.

96.5

The average Canadian household will make 96.5 trips to the grocery store this year, spending almost $4,000 in total.

growing urban markets. These shopping centres are situated in planned communities and are both anchored by Sobeys supermarkets and Super Drug Mart stores. Tuscany Plaza is a fully leased, 86,000 square foot strip centre located in Northwest Calgary. McKenzie Towne Centre is a 109,000 square foot, uniquely designed streetscape centre located in Southeast Calgary that had 15,000 square feet of vacant space of which 9,000 square feet has now been leased. McKenzie Towne Centre also includes 8.5 acres of commercially zoned retail land available for future development.

"We are pleased with these acquisitions which combine both high-quality assets and income growth potential in this attractive and growing area that will continue to be a strategic market for us. This acquisition is also both financially and operationally accretive."
Brian Kozak, Vice President, Western Canada

Development and Redevelopment

- Key to success
- Better participation in growth markets
- Higher return on investment
- Development profits accrue to the Company

Development Builds Higher Returns

Our development and redevelopment expertise adds significant value to our Company. A key to the success of our business, these activities allow us to better participate in growth markets and enhance returns on investment in our property portfolio.

During 2003, the Company completed development and expansion of over half a million square feet of additional gross leasable area in more than 13 properties throughout the portfolio. In total, First Capital Realty invested approximately $93 million in the acquisition of land and development and redevelopment activities in 2003, some of which will come on line in 2004 and 2005.

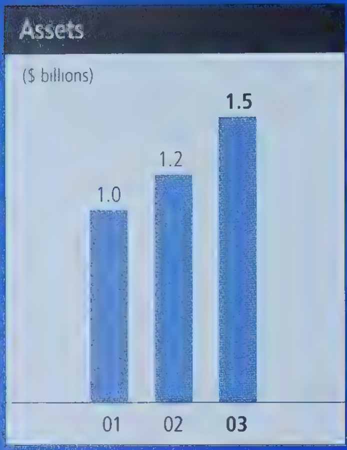
Highlights of our 2003 development activity were three properties – Royal Oak in Calgary, Alberta, Carrefour du Versant in Gatineau, Quebec and Brooklin Towne Centre in Whitby, Ontario. These newly constructed shopping centres are anchored by a Sobeys and Wal-Mart, IGA Extra and Price Chopper, respectively. Additional tenants include London Drugs, Shoppers Drug Mart, Reitmans, Scotiabank, Royal Bank, Dollarama, Blockbuster and Tim Hortons.

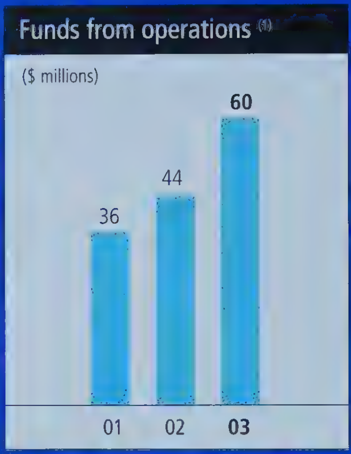
These properties were "green-field" development projects where the Company acquired land either alone or with a joint-venture partner, obtained tenant commitments, municipal approvals and then constructed new shopping centres.

"These properties under development which complement our acquisitions, are exactly in line with our strategy and demonstrate how development can provide additional opportunities for growth and superior returns for our Company. We will continue to develop on a selective and opportunistic basis in our core markets." Sylvie Lachance, Executive Vice President

Disciplined growth

We are committed to creating shareholder value. We continue to grow our assets, our funds from operations and our market capitalization while we remain focused on high-quality, supermarket and drug store anchored shopping centres.





(1) Prior to non-recurring income

"In executing our business strategy, we commit to all of our investors, to always strive to maximize our returns on invested capital, maintain financial discipline and ensure full transparency in financial disclosure."
Karen H. Weaver, Chief Financial Officer

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Management's Discussion and Analysis

DISCLOSURES

This Management's Discussion and Analysis ("MD&A") of results of operations and financial condition should be read in conjunction with First Capital Realty Inc.'s ("First Capital Realty" or the "Company") audited consolidated financial statements for the years ended December 31, 2003 and 2002 and the accompanying notes. Additional information on the Company, including the Annual Information Form is on SEDAR at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements included in this MD&A constitute forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts but reflect the Company's current expectations regarding future results or events and are based on information currently available to management.

Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions; however, management can give no assurance that actual results will be consistent with these forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under "Risk Management" and in other sections of this management's discussion and analysis.

Factors that could cause actual results or events to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, general economic conditions, the availability of new competitive supply of retail properties which may become available either through construction or sublease, First Capital Realty's ability to maintain occupancy and to lease or re-lease space at current or anticipated rents, tenant bankruptcies, financial difficulties and defaults, changes in interest rates, changes in operating costs, First Capital Realty's ability to obtain insurance coverage at a reasonable cost and the availability of financing.

These forward-looking statements are made as of March 12, 2004 and First Capital Realty assumes no obligation to update or revise them to reflect new events or circumstances.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty Inc. was established in November 1993. The Company, directly and through subsidiaries, invests in neighbourhood and community shopping centres in Canada. The Company also invests in the United States through its holdings in Equity One, Inc. (NYSE:EQY) ("Equity One"), a neighbourhood and community shopping centre REIT operating primarily in the southern United States.

First Capital Realty's primary objective is the creation of value through long-term maximization of cash flow and capital appreciation from its growing shopping centre portfolio. This objective is achieved by proactive management of the existing shopping centre portfolio, by a focused and disciplined acquisition strategy and by undertaking selective development and redevelopment activities.

First Capital Realty's primary objective is the creation of value through long-term maximization of cash flow and capital appreciation from its growing shopping centre portfolio.

The Company owns a portfolio of income-producing shopping centres that are typically anchored by supermarkets and/or drug stores. As at December 31, 2003, First Capital Realty's Canadian income-producing shopping centre portfolio consisted of interests in 10.7 million square feet of gross leasable area in 82 properties, 75 of which were supermarket and/or drug store anchored. The Company's Canadian shopping centres average 131,000 square feet in size (2002 – 130,000 square feet) and have an average net book value of $115 per square foot (2002 – $111 per square foot). The locations of these properties are summarized in the following chart.

December 31	2003		2002	
Location	Number of Properties	Gross Leasable Area (000s sq. ft.)	Number of Properties	Gross Leasable Area (000s sq. ft.)
Ontario	36	5,442	26	4,111
Québec	28	3,047	24	2,605
Western Canada	16	2,127	12	1,633
Maritimes	2	92	3	105
Total	82	10,708	65	8,454

Management intends to continue to grow the business, primarily by acquiring and developing neighbourhood and community shopping centres that are supermarket and/or drug store anchored.

The Company also owned 12.5 million shares (approximately 18%) of Equity One, Inc., the assets of which are similar to those of the Company and comprised of 185 properties totalling 19.9 million square feet. Including properties held through its investment in Equity One, at December 31, 2003 the Company had interests in 267 properties totalling approximately 30.6 million square feet of gross leasable area.

Management intends to continue to grow the business, primarily by acquiring neighbourhood and community shopping centre properties that are supermarket and/or drug store anchored. In addition, management will look for strategic or portfolio acquisitions, both in existing markets and markets where the Company may not yet have a significant presence. The Company targets acquisitions of well-located properties in attractive and growing metropolitan areas. As a result, these properties typically attract quality tenants with long lease terms. These tenants typically provide consumers with daily necessities. In management's view, such tenants are somewhat less sensitive to economic cycles and are desirable tenants for its properties.

The Company will also continue to pursue selective development and redevelopment activities, either alone or with joint-venture partners, in order to actively participate in growth markets and to improve the return on the portfolio. Investments in development and redevelopment activities typically comprise approximately 5% of the Company's total assets. New centres are developed after obtaining anchor tenant lease commitments. The Company strategically manages all development activities to reduce development risks.

SUMMARY ANNUAL INFORMATION

(thousands of dollars, except per share amounts)	2003	2002	2001
Real estate investment	$ 1,495,441	$ 1,152,982	$ 905,999
Total assets	$ 1,538,689	$ 1,195,738	$ 988,539
Mortgages, credit facilities, debentures and convertible debentures payable	$ 806,535	$ 643,592	$ 547,618
Shareholders' equity	$ 664,994	$ 507,756	$ 409,571
Property rental revenue – Canada	$ 154,656	$ 125,635	$ 97,866
Property operating expenses – Canada	58,799	47,318	35,103
Net operating income – Canada	95,857	78,317	62,763
Dividends received from Equity One, Inc.	19,033	18,575	4,481
Interest expense	43,324	40,626	50,029
Income before income and other taxes and dilution gains	53,194	45,140	47,785
Net income	$ 44,026	$ 29,634	$ 31,495
Net income per share	$ 0.91	$ 0.74	$ 1.09
Net income per diluted share	$ 0.91	$ 0.74	$ 1.04
Funds from operations (1)	$ 60,053	$ 45,241	$ 46,443
Funds from operations per diluted share	$ 1.38	$ 1.37	$ 1.57
Funds from operations (2)	$ 60,053	$ 43,641	$ 36,407
Funds from operations per diluted share (2)	$ 1.38	$ 1.33	$ 1.27
Debt to market capitalization:			
Convertible debentures as debt	66.1%	81.4%	80.3%
Convertible debentures as equity	47.8%	55.2%	51.5%
Dividends	$ 30,507	$ 18,698	$ 15,223
Diluted common shares at year end	53,928,981	40,234,449	33,035,160
Dividends per common share	$ 1.14	$ 1.09	$ 0.99

(1) See page 23 for an explanation and reconciliation of funds from operations.
(2) Prior to non-recurring income as follows: $1.6 million (0.04 per share) in lease termination income in 2002, $8.5 million ($0.26 per share) recovery of previous management's incentive and other fees in 2001, and $1.5 million ($0.05 per share) in lease termination income in 2001.

Summary Annual Information Highlights

During the past three years, the Company has increased its equity base and its investment in income-producing properties while reducing its overall debt as a percent of market capitalization. The ratio of debt to market capitalization has, with all convertible debentures classified as debt, decreased from 80.3% at the end of 2001 to 66.1% at the end of 2003. This strengthening of the balance sheet was accomplished while growing funds from operations.

Investment in real estate has increased by 65% over the last two years due to the Company's focused acquisition strategy and its new development and redevelopment activities coming on line. The Company's debt increased by 47% over the same period. As a result, revenues, expenses, net operating income and interest expense have increased. The Company has financed its growth through both debt and common share equity.

Funds from operations per diluted share has increased 9% over two years, excluding the $8.5 million recovery of previous management's incentive and other fees, a $1.5 million one-time lease termination income in 2001 and after giving effect to the growth in the diluted common shares outstanding.

The Company has also increased its dividends per share by 15% from 2001 to 2003 as cash flow from operations has increased.

TOTAL RETURN

The Company's dividend history, annual dividend yield on average share price, and the total annual return including capital appreciation are outlined below for the previous three years.

In 2003, the Company's return to shareholders amounted to an 8.2% dividend yield on the annual average closing price and a 40.2% total return to shareholders.

		2003		2002		2001
Dividends per common share	$	**1.14**	$	1.09	$	0.99
Annual average closing price	$	**13.95**	$	12.27	$	10.47
Dividend yield on average closing price		**8.2%**		8.9%		9.5%

Total return is calculated as follows:

		2003		2002		2001
Open common share price	$	**12.15**	$	12.95	$	8.90
Close common share price	$	**15.89**	$	12.15	$	12.95
Capital appreciation	$	**3.74**	$	0.27 (1)	$	4.05
Capital appreciation yield		**30.8%**		2.1%		45.5%
Dividend yield on opening common share price		**9.4%**		8.4%		11.1%
Total return		**40.2%**		10.5%		56.6%

(1) Includes $1.07 for distribution of share rights

OPERATIONS

Leasing

In 2003, net new leasing, including development and redevelopment, totalled 581,000 square feet of space compared to 245,000 square feet in 2002. This net new leasing will generate additional annual minimum rent of approximately $6.7 million compared with $4.6 million in 2002. Lease renewals on 520,000 square feet were completed in 2003, as compared to 302,000 square feet of space in 2002. The 2003 renewals will generate additional annual minimum rent of $0.24 million or $0.46 per square foot.

With the impact of the leasing during the year, acquisitions and development, and increases from contractual rent steps, the average rate per occupied square foot increased to $12.66 compared with $11.92 at December 31, 2003.

The occupancy level of the portfolio, including properties currently under redevelopment, was 93.1% of total gross leasable area as at December 31, 2003 as compared with 91.7% at December 31, 2002. Management expects that the completion of redevelopment and committed leasing will result in higher occupancy levels in 2004.

2003 Acquisitions

The Company acquired 1.6 million square feet in 14 income-producing shopping centres in 2003 for $242 million. Of these properties, ten were anchored by supermarkets and two were anchored by drug stores. In addition, nine of the supermarket anchored centres also included drug stores as additional anchors.

Property Name	Location	Province	Supermarket Anchored	Drug Store Anchored	Gross Leasable Area (Square Feet)
Meadowvale Town Centre	Mississauga	ON	✓	✓	370,000
Gloucester City Centre	Ottawa	ON	✓	✓	337,000
Centre Maxi Trois-Rivières	Trois-Rivières	QC	✓	✓	122,000
Centre commercial Maisonneuve	Montréal	QC	✓	✓	113,000
McKenzie Towne Centre	Calgary	AB	✓	✓	107,000
Maple Grove Village	Oakville	ON	✓	✓	98,000
Tuscany Market	Calgary	AB	✓	✓	86,000
Credit Valley Town Plaza	Mississauga	ON	✓	✓	84,000
Old Strathcona	Edmonton	AB	–	–	79,000
Dufferin Corners	Toronto	ON	–	✓	76,000
Le Campanile	Montréal	QC	–	✓	56,000
Yonge-Davis Centre	Newmarket	ON	–	–	50,000
Bayview Lane Plaza	Markham	ON	✓	✓	48,000
Eagleson Cope Drive	Ottawa	ON	✓	–	–
Shopping centres			10	11	1,626,000

The Company acquired 14 income-producing shopping centres totalling 1.6 million square feet in 2003.

The Company also acquired additional interests in four existing shopping centres, two properties for development and a land site adjacent to a property for future expansion. Total expenditures on these additional interests and land sites amounted to $21 million for 0.135 million square feet of retail space and 21 acres of zoned commercial land for future development.

Property Name	Location	Province	Acres	Gross Leasable Area (Square Feet)
Les Promenades du Parc	Longueuil	QC	–	47,000
Place Viau (Maxi)	Montréal	QC	–	28,000
Wellington Corners	London	ON	–	10,000
Centre Domaine (Metro Land)	Montréal	QC	–	–
Additional interests in properties				85,000
3434 Lawrence	Toronto	ON	–	50,000
Brooklin Towne Centre (Land)	Whitby	ON	12.5	–
McKenzie Towne Centre (Land)	Calgary	AB	8.5	–
Land sites and properties for development			21.0	50,000

2002 Acquisitions

The Company acquired 2.1 million square feet in 18 shopping centres in 2002 for $162 million. Of these properties, 17 were anchored by supermarkets and 15 also included drug stores as additional anchors.

Property Name	Location	Province	Supermarket Anchored	Drug Store Anchored	Gross Leasable Area (Square Feet)
Galeries Normandie	Montréal	QC	✓	✓	224,000
Centre Domaine	Montréal	QC	✓	✓	193,000
Centre commercial Côte St. Luc	Montréal	QC	✓	✓	180,000
Plaza Delson	Delson	QC	✓	✓	160,000
Carrefour St. Hubert	Longueuil	QC	✓	✓	156,000
Westney Heights Plaza	Ajax	ON	✓	✓	148,000
Centre commercial Beaconsfield	Montréal	QC	✓	✓	124,000
Place Viau	Montréal	QC	✓	✓	124,000
Place Pointe-aux-Trembles	Montréal	QC	✓	✓	121,000
Place Fleury	Montréal	QC	✓	✓	115,000
Centre commercial Wilderton	Montréal	QC	✓	✓	115,000
Byron Village	London	ON	✓	✓	89,000
Centre commercial Van Horne	Montréal	QC	✓	✓	83,000
Midland Lawrence Plaza	Toronto	ON	✓	–	76,000
Place Vilamont	Laval	QC	✓	✓	73,000
Toys 'R' Us / Pier 1 Imports	Montréal	QC	–	–	52,000
Galeries Brien	Repentigny	QC	✓	✓	43,000
Village des Valeurs	Laval	QC	✓	–	27,000
Shopping centres			17	15	2,103,000

The Company also acquired additional interests in three shopping centres and three land sites for development in 2002. Total expenditures on these additional interests and land sites amounted to $27 million primarily for 53 acres of zoned commercial land for development.

Property Name	Location	Province	Acres	Gross Leasable Area (Square Feet)
Red Deer Village (Land)	Red Deer	AB	10.0	–
Centre Domaine (Land)	Montréal	QC	–	–
Towerhill Centre (Chemong)	Peterborough	ON	–	21,000
Additional interests in properties			10.0	21,000
Royal Oak	Calgary	AB	27.4	–
McLaughlin Corners	Brampton	ON	7.6	–
Carrefour du Versant	Gatineau	QC	8.0	–
Total acres for development			53.0	–

Development Activities

During the year the Company developed or expanded over 0.5 million square feet of retail space in the following shopping centres:

Property Name	Location	Province	Square Feet	Major Anchors
Royal Oak	Calgary	AB	132,000	Wal-Mart
Red Deer Village	Red Deer	AB	92,000	Sobeys, Canadian Tire
Carrefour du Versant	Gatineau	QC	43,000	Sobeys
Delta Centre	Cambridge	ON	40,000	Price Choppers (Sobeys)
Brooklin Towne Centre	Whitby	ON	39,000	Price Choppers (Sobeys)
Stanley Park Mall	Kitchener	ON	33,000	Zehrs
McLaughlin Corners	Brampton	ON	25,000	Shoppers Drug Mart, Royal Bank
Brantford Mall	Brantford	ON	24,000	SAAN
Wellington Corners	London	ON	24,000	Shoppers Drug Mart
Parkway Centre	Peterborough	ON	14,000	
Harwood Plaza	Ajax	ON	11,000	
Fairview Mall	St. Catharines	ON	8,000	
Les Galeries de Lanaudière	Lachenaie	QC	7,000	
Other Pads & Expansions			14,000	
			506,000	

An additional 0.3 million square feet of developable area scheduled to come on line through the second quarter of 2005 in the following shopping centres:

Property Name	Location	Province	Developable Square Feet	Cost to Complete (millions)
Royal Oak	Calgary	AB	207,000	$ 7.2
Brooklin Towne Centre	Whitby	ON	55,000	1.5
Carrefour du Versant	Gatineau	QC	36,000	1.4
3434 Lawrence	Toronto	ON	–	3.3
			298,000	$ 13.4

In addition to the properties under development, the Company has eight shopping centres under redevelopment or expansion at year end. The expected costs to complete these projects including tenant inducements total approximately $24 million.

Equity One

Equity One is a U.S. REIT traded on the NYSE (EQY), that principally acquires, renovates, develops and manages community and neighbourhood shopping centres located predominantly in high growth markets in the southern United States. Similar to the Company, Equity One's shopping centres are primarily anchored by supermarkets or other daily necessity oriented retailers such as drug stores or discount retail stores.

Equity One Property Portfolio

At December 31, 2003, Equity One owned 185 properties totalling 19.9 million square feet located primarily in metropolitan areas of twelve states in the southern United States, comprised of 123 supermarket anchored shopping centres, eleven drug store anchored shopping centres, 44 other retail anchored shopping centres, a self-storage facility, an industrial property and five developments as well as non-controlling interests in two unconsolidated joint ventures.

The investment in Equity One provides the Company with geographic diversification in high growth urban markets in the United States. Seventy-six percent of the total square footage is located in Florida, Texas, and Georgia with the balance of the properties in nine other states.

The Equity One portfolio also provides further diversification of property rental revenue through additional U.S. retailers. Nine of Equity One's top ten tenants are represented by U.S.-based corporations that are distinct from the Company's top ten tenants.

This information concerning Equity One is based on publicly available information and documents filed with the U.S. Securities and Exchange Commission.

Analysis of Investment in Equity One

The book value and market value of the Company's investment in Equity One amount to $211 million and $274 million, respectively, at December 31, 2003, using the year-end exchange rate of $1.30.

The investment in Equity One, which originated from an exchange of directly-owned U.S. shopping centres for shares in Equity One in 2001, continues to provide both cash flow and capital appreciation to the Company. Equity One has paid dividends for 23 consecutive quarters and thus provides the Company with a source of stable cash income. During 2003, First Capital Realty reinvested a portion of these dividends into further stock purchases at a discount through the Equity One dividend reinvestment and stock purchase plan, and may continue to do so in the future.

First Capital Realty owns 12.5 million shares of Equity One as of December 31, 2003.

Return on Investment in Equity One

The Company has achieved a significant return on its investment in Equity One. The following table summarizes the value created before tax as at December 31, 2003.

	Value US$ Millions	Per Share US$
Net investment, Q3, 2001	$ 120.2	$ 11.45
Shares subsequently purchased	28.4	14.00
	148.6	11.86
Dividends received	(28.1)	(2.45)
Appreciation on investment	90.9	7.47
Market value of shares at December 31, 2003	$ 211.4	$ 16.88

Overall, the market value of Equity One shares at December 31, 2003 of US$16.88 per share equates to a Cdn$118 million total return before tax, or 62%, since initial investment in September, 2001.

RESULTS OF OPERATIONS

Funds from Operations

In management's view, funds from operations ("FFO") is a commonly accepted and meaningful indicator of financial performance in the real estate industry. FFO does not recognize amortization as an operating expense or recognize future income taxes until they are paid.

First Capital Realty believes that financial analysts, investors and stockholders are better served when the clear presentation of comparable period operating results generated from FFO disclosure supplements Canadian generally accepted accounting principles ("GAAP") disclosure. The Company's method of calculating FFO may be different from methods used by other corporations or REITs and accordingly, may not be comparable to such other corporations or REITs. FFO is presented to assist investors in analyzing the Company's performance and to provide an indication of the Company's ability to fund capital expenditures, dividends and other cash needs. FFO (i) does not represent cash flow from operations as defined by GAAP, (ii) is not indicative of cash available to fund all cash flow needs and liquidity, including the ability to pay dividends, and (iii) should not be considered as an alternative to net income (which is determined in accordance with GAAP) for purposes of evaluating operating performance.

The Company's funds from operations are calculated below:

(thousands of dollars)	2003	2002
Net income for the year	$ 44,026	$ 29,634
Add (deduct):		
Amortization	11,364	8,859
Loss (gain) on disposition of marketable securities	(74)	138
Loss (gain) on disposition of land and shopping centres	275	(591)
Non-cash compensation expense	273	–
Equity income from Equity One, Inc.	(19,095)	(21,606)
Dividend income from Equity One, Inc.	19,033	18,575
Dilution gain on investment in Equity One, Inc.	(17,911)	(3,290)
Future income taxes	22,162	13,522
Funds from operations	$ 60,053	$ 45,241

Funds from operations on a diluted basis totalled $1.38 per common share for the year ended December 31, 2003, compared to $1.33, exclusive of a $0.04 per share for a one-time lease termination income, in 2002. The increase in FFO was primarily due to the effect of acquisitions and development in 2002 and 2003.

Net operating income increased by $17.5 million in 2003 to $95.9 million.

Net Operating Income

(thousands of dollars)	2003	2002
Same property	$ 55,643	$ 54,607
Acquisitions	26,042	12,381
Development and redevelopment	13,680	9,459
Lease termination income	492	1,870
Net operating income	$ 95,857	$ 78,317

Net operating income ("NOI") increased in 2003 by $17.5 million to $95.9 million. Same property NOI (includes properties where the Company's ownership and investment are substantially the same in the two calendar years) grew by 1.9% or $1.0 million during the year.

NOI from acquisitions increased by $13.7 million in 2003 to $26.0 million as a result of 2003 acquisitions which contributed NOI of $7.3 million and from the incremental effect of 2002 acquisitions held for the entire year of $6.4 million. The development and redevelopment projects completed during the year also provided $4.2 million of the increase in NOI.

In the normal course of operations the Company receives payments from tenants as compensation for the cancellation of leases. Typically, annual lease termination income ranges normally from $300,000 to $500,000. In 2003, the Company received lease cancellation payments of $0.5 million as compared to $1.9 million in 2002. Lease termination income was lower in 2003 due to a one-time lease termination payment of $1.6 million received from a single tenant in 2002.

Same property NOI grew 1.9% over 2002.

Equity Income from Equity One, Inc.

The Company's share of Equity One's net earnings, adjusted to Canadian GAAP, net of a provision for future tax on the undistributed earnings of Equity One, is recorded as equity income. The $2.5 million decrease in the equity income is primarily due to a change in the average U.S. exchange rate from $1.57 in 2002 to $1.40 in 2003, and is also impacted by a decrease in the weighted average ownership from 33% to 20% offset by an increase in Equity One income.

Interest, Other Income and Gains on Sale

Interest and other income is comprised of the following:

(thousands of dollars)	2003	2002
Interest and other income	$ 2,839	$ 1,998
Gain (loss) on disposition of marketable securities	74	(138)
Dividend income	77	156
	2,990	2,016
Gain (loss) on disposition of land and shopping centres	(275)	591
Total	$ 2,715	$ 2,607

The Company earns interest income from funds invested in three types of investments: advances made to the Company's development partners; short-term cash deposits; and an investment in a portfolio of short-term mortgages and other receivables. The growth in interest and other income in 2003 is primarily from increased interest income due to a higher amount of advances made to development partners for development activities during the year.

The loss on disposition of land and shopping centres for the year ended December 31, 2003 is from the disposition of a non-core asset. The gains on disposition of land and shopping centres for the year ended December 31, 2002 are from the sale to large format retailers of land parcels adjacent to the Company's properties.

Interest Expense

The Company's interest expense is comprised of the following:

(thousands of dollars)	2003	2002
Mortgages and credit facilities		
Secured by Canadian properties	$ 34,329	$ 29,104
Secured by investment in Equity One	4,393	4,350
	38,722	33,454
Debentures and convertible debentures	4,602	7,172
Total interest expense	$ 43,324	$ 40,626

The factors affecting each component of interest expense are discussed below.

Interest Expense on Mortgages and Credit Facilities – Canada

Interest expense on mortgages and credit facilities secured by Canadian assets is comprised of the following:

(thousands of dollars)	2003	2002
Interest expense	$ 34,329	$ 29,104
Interest capitalized	3,481	1,796
Other	132	228
Total Canadian mortgage and credit facilities interest paid	$ 37,942	$ 31,128

The increase of $6.8 million in interest paid on Canadian mortgages and credit facilities in 2003 over 2002 primarily results from increased borrowing by the Company to fund acquisitions and development activities. The increase in interest expense in 2003 was a result of an increase in the gross debt and was partially offset by a decrease in the weighted average interest rate on the Company's Canadian fixed rate borrowings, from 7.3% at December 31, 2002 to 7.0% at December 31, 2003, and by an increase in the interest capitalized to properties under development.

Interest Expense on Credit Facilities – United States

Interest expense on mortgages and credit facilities secured by the investment in Equity One is summarized as:

(thousands of dollars)	2003	2002
Ending debt balance – December 31 (US$)	$ [illegible]	$ 68,947
Interest expense (US$)	$ 3,147	$ 2,771
Average exchange rate	$ 1.40	$ 1.57
Interest expense (Cdn$)	$ 4,393	$ 4,350

Measured in U.S. currency, the interest expense on the U.S. facilities has increased by 14% in 2003 from 2002 as a result of the higher debt balance. The change in the U.S. exchange rate during 2003, has offset this increase.

Interest on Debentures and Convertible Debentures

(thousands of dollars)	2003	2002
Interest expense on convertible debentures	$ 3,569	$ 4,438
Interest expense on debentures	1,033	2,734
Total debenture interest expense	4,602	7,172
Interest on equity component of convertible debentures	27,434	24,395
Total interest paid	32,036	31,567
Less: interest paid in common shares of the Company	(18,724)	(14,205)
Cash interest paid	$ 13,312	$ 17,362

Interest expense on convertible debentures and debentures declined due to the reduction in the weighted average liability component of the Company's outstanding convertible debentures and debentures from 2002 to 2003.

Corporate Expenses

Corporate expenses are comprised of the following:

(thousands of dollars)	2003	2002
Salaries, wages and benefits	$ 4,419	$ 3,475
Capital taxes, net of recoveries from tenants	1,141	835
Capitalized expenses	(254)	(257)
Other general and administrative costs	3,269	2,780
Total corporate expenses	$ 8,575	$ 6,833

Salaries, wages and benefits incurred in 2003 exceeded the level incurred in 2002 by $0.9 million as a result of the additional employees required for a growing portfolio and increasing acquisition and development activity. Capital taxes have increased $0.3 million as a result of the acquisition and development activity of the Company. The Company manages acquisitions, development and redevelopment activities internally. Under Canadian GAAP certain expenditures, if internally incurred, are not capitalized to the costs of acquired or developed properties. However, certain corporate expenses relating to development and redevelopment projects are capitalized, in accordance with GAAP, to land and shopping centres under development as incurred. Other general and administrative costs are comprised of professional fees, directors fees, insurance and other corporate costs.

Amortization

(thousands of dollars)	2003	2002
Shopping centres	$ 8,368	$ 6,668
Tenant inducements and leasing fees	2,629	1,955
Other	367	236
	11,364	8,859
Deferred financing	1,210	1,072
Total amortization	$ 12,574	$ 9,931

Amortization for the year ended December 31, 2003 totalled $12.6 million, an increase of $2.6 million over 2002. This increase resulted from new acquisitions in 2003, development and

redevelopment of shopping centres coming on line, and use of the sinking fund method of depreciation in which amortization expense on buildings increases by 5% per year.

Income and Other Taxes

(thousands of dollars)		2003		2002
Canadian federal large corporations tax	$	1,950	$	1,850
United States current income and withholding taxes		2,967		3,424
Total	$	4,917	$	5,274

The increase in the Canadian federal large corporations tax results from the increase in the size of the Company's capital base.

The United States current income and withholding taxes of $3.0 million arises from net income earned by the Company's U.S. subsidiaries. The $0.5 million decrease in the U.S. current income and withholding taxes is due to a reduction in the average foreign exchange rate from $1.57 to $1.40 as well as a reduction in the taxable portion of the Equity One dividend.

The Company has tax-loss carryforwards for Canadian income tax purposes of approximately $32 million available to reduce future Canadian taxable income. In addition, the Company has deductible temporary differences which can be used to shelter future income, for which no future tax asset has been recognized.

The Company's capital base is comprised of mortgages and credit facilities, convertible debentures and common share equity.

Net Income

(thousands of dollars)		2003		2002
Net income before the following:	$	32,831	$	27,578
Dilution gain on investment in Equity One, Inc.		17,911		3,290
Income tax on above		(6,716)		(1,234)
Net income	$	44,026	$	29,634
Net income per diluted share	$	0.91	$	0.74

Net income for the year ended December 31, 2003 was $44.0 million, or 91 cents per share basic and diluted, compared to $29.6 million, or 74 cents per share basic and diluted, in the prior year. Net income increased in 2003 by the $17.9 million dilution gain on the Company's investment in Equity One compared to $3.3 million in the prior year. The dilution gains on the Company's investment in Equity One arose as a result of an increase in Equity One's number of common shares outstanding from 34.2 million to 68.7 million during 2003, causing a reduction of the Company's ownership interest in Equity One from 33% to 18%. Excluding dilution gains and the related tax impact, net income increased by approximately 19% from $27.6 million to $32.8 million.

CAPITAL STRUCTURE

The real estate business is capital-intensive by nature. First Capital Realty focuses on its capital structure to finance growth and to provide cash dividends to shareholders over the long term. In the real estate industry, financial leverage is used to enhance rates of return on invested capital. Management believes that First Capital Realty's blend of debt and equity in its capital base provides stability and reduces risks while generating acceptable equity returns, taking into account the long-term business objectives of the Company.

(thousands of dollars)	2003	2002
Mortgages and credit facilities – Canada	$ 677,491	$ 478,312
Credit facilities – U.S.	108,810	108,771
Mortgages and credit facilities	786,301	587,083
Convertible debentures payable	20,234	41,272
Equity component of convertible debentures	337,557	371,330
Other	1,432	3,837
Convertible debentures principal	359,223	416,439
Debentures payable	–	15,237
Total debt (debentures as debt)	$ 1,145,524	$ 1,018,759
Share capital	$ 422,916	$ 200,183
Warrants	6,591	10,303
Options and deferred share units	298	–
Cumulative currency translation	(8,253)	11,697
Deficit	(94,115)	(85,757)
	327,437	136,426
Equity component of convertible debentures	337,557	371,330
Total shareholders' equity	$ 664,994	$ 507,756

The weighted average interest rate on mortgages and credit facilities was 6.9% at December 31, 2003 down from 7.3% at December 31, 2002.

Mortgages and Credit Facilities

As at December 31, 2003 mortgages and credit facilities represented 51.1% of the gross book value of the Company's real estate investments as compared to 49.5% at December 31, 2002. This increase was primarily due to the acquisition of shopping centres during the year, which were financed with mortgages and credit facilities, equity and cash.

The weighted average interest rate on mortgages and credit facilities was 6.9% at December 31, 2003 compared to 7.3% at December 31, 2002.

The Company's fixed versus floating mortgages and credit facilities are detailed as follows:

	2003			2002
(thousands of dollars)	Canada	U.S.	Total	Total
Fixed rate	$ 639,733	$ 38,895	$ 678,628	$ 440,459
Floating rate	37,758	69,915	107,673	146,624
	$ 677,491	$ 108,810	$ 786,301	$ 587,083

At December 31, 2003, 86% of the outstanding mortgage and credit facility liabilities bore interest at fixed interest rates, compared to 75% in 2002.

In Canada, the Company had fixed rate mortgages outstanding as at December 31, 2003 in the aggregate amount of $639.7 million as compared to $424.7 million at the end of 2002. The increase in the outstanding balance is the net result of $34.5 million in repayments and $249.5 million in new financing, primarily from financing on acquisitions and refinancing on existing properties.

The U.S. dollar-denominated credit facilities totalling Cdn$109 million are utilized to finance the Company's investment in Equity One. The debt service requirements of these credit facilities are funded by the cash flow generated by the dividends from Equity One. This reduces the Company's exposure to fluctuations in foreign currency exchange rates.

The outstanding U.S. credit facilities increased from US$68.9 million at December 31, 2002 to US$83.9 million at December 31, 2003 due to net additional borrowing of US$15 million. The decrease in the U.S. exchange rate from $1.58 at December 31, 2002 to $1.30 at December 31, 2003 is offset by the increased borrowing of the U.S. credit facilities resulting in no change in the value of U.S. credit facilities measured in Canadian dollars.

The Company attempts to manage its long-term debt by spreading maturity dates in order to mitigate against short-term volatility in the debt markets. At December 31, 2003, the Company had mortgages and credit facilities aggregating $69.5 million coming due in 2004, of which $7.9 million were fixed rate mortgages at an average interest rate of 5% and $22.2 million representing amortization of principal balances during the year. The remaining $39.4 million of floating rate mortgages and credit facilities maturing in 2004 are being used to primarily finance development and redevelopment activities. As these projects are completed, Management intends to arrange long-term permanent financing against these projects.

The Company's debt maturity profile is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total	% Due
2004	$ 56,907	$ 12,634	$ 69,541	8.8
2005	47,653	6,416	54,069	6.9
2006	31,400	12,629	44,029	5.6
2007	63,126	77,131	140,257	17.8
2008	42,936	–	42,936	5.5
2009	36,565	–	36,565	4.7
2010	63,222	–	63,222	8.0
2011	43,806	–	43,806	5.6
2012	68,157	–	68,157	8.7
2013	113,236	–	113,236	14.4
Thereafter	110,483	–	110,483	14.0
	$ 677,491	$ 108,810	$ 786,301	100.0

Debentures Payable

In December 2003, the Company paid the $14.7 million outstanding principal balance of the 7.5% debentures on maturity. Prior to maturity, $0.2 million of the debentures were converted to 7.25% convertible debentures, and $0.3 million were purchased and cancelled by the Company.

Convertible Debentures

The following table summarizes the components of the Company's convertible debentures.

(thousands of dollars)		2003			2002	
Interest Rate	Principal	Liability	Equity	Principal	Liability	Equity
8.50%	$ –	$ –	$ –	$ 57,441	$ 15,580	$ 43,557
7.875%	97,522	20,234	81,088	97,522	25,692	74,764
7.00%	99,999	–	102,153	99,999	–	101,314
7.25%	161,702	–	154,316	161,477	–	151,695
	$ 359,223	$ 20,234	$ 337,557	$ 416,439	$ 41,272	$ 371,330

Convertible debentures have been issued by First Capital Realty as a tax-effective method of financing a portion of the equity component of its shopping centre portfolio expansion. Accordingly, a large portion of the Company's capital is in the form of convertible debentures that mature between 2007 and 2008. The debentures require interest payable semi-annually at rates ranging from 7.0% to 7.875%.

Holders of these debentures have the right to convert them into an aggregate total of 16,966,038 common shares at share prices that range from $16.43 to $24.40 per share on or before maturity.

If the holders of the debentures do not exercise their conversion rights, the Company has the option of repaying the debentures on maturity by way of the issuance of common shares at 95% of a weighted average trading price of the Company's common stock.

The 7.0% and 7.25% convertible debenture series also provide the Company with the option to pay semi-annual interest through the issue of common stock.

Holders of the Company's 8.5% convertible debentures converted $3.4 million of principal into 227,854 common shares during 2003. The remaining $54.0 million principal of the 8.5% convertible debentures was redeemed in 2003 by the Company through the issuance of 3,647,388 common shares.

Shareholders' Equity

Shareholders' equity amounted to $665 million as at December 31, 2003, as compared to $508 million at the end of 2002. Shareholders' equity as at December 31, 2003 included $337.6 million (2002 – $371.3 million) that represents the equity component of convertible debentures as discussed above.

As at December 31, 2003, the Company had 35,109,754 (2002 – 19,142,717) issued and outstanding common shares with a stated capital of $422.9 million (2002 – $200.2 million). During fiscal 2003, a total of 15,967,037 common shares were issued adding $222.7 million to shareholders' equity: 202,535 shares in lieu of cash on acquisitions of real property; 1,372,476 shares for four interest payments on the 7.0% and 7.25% convertible debentures; 4,651,784 shares from the exercise of share purchase warrants; 5,753,000 shares as a result of private placements; 3,875,242 common shares were issued in connection with the redemption and conversion of convertible debentures and 112,000 shares from the exercise of common share options.

Shareholders' equity as at December 31, 2003 includes a net cumulative, unrealized currency translation adjustment in the negative amount of $8.3 million (2002 – positive amount of $11.7 million). This amount represents the difference between the U.S. dollar exchange rate in effect at the date of the acquisition of the Company's U.S. net assets, and the U.S. dollar exchange rate as at December 31, 2003 and 2002, respectively. The U.S. dollar exchange rate in effect at December 31, 2003 decreased to US$1.00 = Cdn$1.30 from the exchange rate at December 31, 2002 of US$1.00 = Cdn$1.58. The impact of the decrease in the foreign exchange rate on the net assets held in the United States resulted in a $20 million change in the unrealized currency translation adjustment.

Shareholders' equity as at December 31, 2003 includes a deficit of $94.1 million (2002 – $85.8 million). The Company has historically paid dividends, consistent with general industry practice, based on cash flow from operations as opposed to net income.

Share Purchase Warrants

On April 15, 2002, the Company issued 12,301,619 common share purchase warrants entitling holders to acquire common shares at $11.80 per share. The warrants are exercisable during a three-month period commencing on June 1 and ending on August 31 in each year until 2008, are subject to certain terms and conditions, and may be exercisable in certain other limited circumstances.

The warrants were issued under a rights offering in which the maximum number of warrants available under the rights offering were subscribed by holders of common shares. The warrants are listed for trading on the Toronto Stock Exchange under the ticker symbol FCR.WT.

The warrants represent an additional means of increasing the Company's capital base over time without incurring significant issue costs. During the year 4,651,784 share purchase warrants were exercised for proceeds of $54.9 million. As at December 31, 2003, there were 5,776,429 share purchase warrants outstanding, which would represent additional equity of $68.2 million if exercised.

Liquidity

Funds from operations for 2003 totalled $60.1 million (2002 – $45.2 million). This amount was available to fund payments on the cash component of the equity portion of convertible debentures totalling $8.7 million, mortgage debt principal amortization of $18.7 million and dividends of $26.3 million. The resulting net generation of cash of $6.4 million, together with net mortgage refinancing, interim financing and the Company's credit facilities, including the US$84 million facility secured against the investment in Equity One, were used to fund the acquisition, expansion and redevelopment of shopping centres, the acquisition and development of land, tenant inducements and advances to the Company's development partners.

Cash and cash equivalents were $0.1 million at December 31, 2003 (2002 – $0.4 million). The Company also has undrawn credit facilities totalling $73.0 million at December 31, 2003. In addition, the Company had eight unlevered properties with a book value of approximately $21.6 million. Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term.

Financing of unlevered projects and refinancing of existing projects in 2004 is expected to generate additional cash. The actual level of future borrowings will be determined based upon the level of liquidity required, the prevailing interest rate and debt market conditions.

The Company has maintained a policy of paying regular quarterly dividends to common shareholders since it commenced operations in 1994.

Dividends

The Company has maintained a policy of paying regular quarterly dividends to common shareholders since it commenced operations in 1994. Dividends are set taking into consideration the Company's capital requirements, its alternative sources of capital and common industry cash distribution practices.

In 2003, the Company paid dividends of $1.14 per common share (2002 – $1.09 per common share). These dividends represented a payout ratio of 83% in 2003 compared to 80% in 2002. The Company is currently paying a quarterly dividend of $0.29 per common share. The annual dividend has grown at a compound rate of approximately 5% since the Company commenced operations in March 1994.

2003 FOURTH QUARTER RESULTS

Quarterly Analysis

($000s except per share and Other Data)	2003				2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property Rental Revenue	43,561	38,145	37,002	35,948	36,470	31,388	30,490	27,287
Net Operating Income	27,775	24,084	22,495	21,503	23,353	19,629	18,663	16,672
Net Income	9,394	10,824	8,892	14,916	7,602	7,503	6,381	8,148
Net Income/share	0.13	0.19	0.17	0.49	0.15	0.18	0.13	0.28
Net Income/share diluted	0.13	0.19	0.17	0.38	0.15	0.18	0.13	0.27
Funds from operations	17,654	16,085	13,451	12,863	14,709	11,212	10,496	8,824
Funds from operations/ Share diluted	0.35	0.34	0.35	0.34	0.41	0.33	0.33	0.30
Weighted average shares outstanding	30,434,449	27,338,724	20,029,131	19,338,504	18,622,255	17,290,154	15,983,188	15,377,024
Weighted average diluted shares outstanding	52,348,299	49,901,914	41,760,502	40,336,384	38,503,915	37,406,882	35,841,750	33,035,160
Dividend	0.29	0.29	0.28	0.28	0.28	0.27	0.27	0.27
Total assets	1,538,689	1,420,010	1,312,484	1,251,559	1,195,738	1,156,501	1,096,377	1,027,409
Total mortgages and credit facilities	786,301	704,651	632,647	657,090	587,083	568,047	537,682	502,806
Shareholders' equity	664,994	633,048	588,414	510,790	507,756	478,125	447,341	411,535
OTHER DATA								
Number of properties	82	79	72	70	65	64	62	53
Gross leasable area	10,708,000	9,915,000	9,009,000	8,720,000	8,454,000	8,189,000	7,851,000	6,857,000
Occupancy %	93.1%	92.8%	91.9%	91.9%	91.7%	90.8%	92.6%	93.0%

The Company acquired three properties during the fourth quarter of 2003, for $97 million, increasing the size of the portfolio by 514,000 square feet. These properties were financed with $51 million fixed rate mortgage debt at a weighted average rate of 6.27%. In addition, 279,000 square feet of newly developed space came on line during the quarter.

Net operating income increased to $27.8 million from $23.4 million in the fourth quarter of the prior year. $4.0 million of the increase was due to 2003 acquisitions, $0.2 million was the incremental impact of acquisitions made in the fourth quarter of the prior year, $1.5 million was due to developments coming on line during the year, $0.3 million was from same property growth. These increases were partially offset by a $1.6 million one-time lease termination income received in the fourth quarter of 2002.

The strength of the acquisitions and leasing in the fourth quarter is further reflected in the increase in the occupancy levels of the portfolio from 92.8% at September 30, 2003 to 93.1% at the end of December.

In addition to the growth in the portfolio, the Company also increased the number of shares outstanding during the quarter, by issuing 5.9 million new shares. The redemption and conversions of the 8.5% convertible debentures resulted in the issuance of 3.9 million shares; 1.6 million shares were issued as a result of exercise of the share purchase warrants; and 0.4 million shares were issued as a result of satisfying the interest payment on the 7.25% convertible debentures in shares.

FFO per diluted share was 35 cents compared to 37 cents in the fourth quarter of 2002, adjusted for a non-recurring $1.6 million (4 cents per diluted share) lease termination income. The decline in the quarter is due to a 36% increase in the average diluted shares outstanding, combined with a relative decline in percent rent traditionally received in the fourth quarter which has been received more evenly throughout the year in 2003.

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES AND POLICIES

Summary of Critical Accounting Estimates

First Capital Realty's significant accounting policies are described in Note 1 to the Consolidated Financial Statements. Management believes the policies which are most subject to estimation and management's judgment are those as outlined below.

Property Acquisitions

For acquisitions subsequent to September 12, 2003, in accordance with CICA 1581 and CICA 3062, management is required to perform the procedures listed below. Many of these procedures are subject to estimation and management judgment.

- Estimate the value of serviced land "as if vacant" as of the acquisition date;
- Estimate the value of the building "as if vacant" as of the acquisition date;
- Allocate that value among land, site improvements and building;
- Allocate the value of the above and below-market leases to the intangible assets;
- Calculate the value and associated life of the tenant relationships, if any, by taking the direct identifiable benefits of the tenant relationship and discounting that to its present value; and,
- Estimate the fair value of the tenant improvements and leasing commission.

Impairment of Assets

Under Canadian GAAP, management is required to write down to fair value any long-lived asset that is determined to have been permanently impaired. First Capital Realty's long-lived assets consist of investments in income properties and mortgages receivable. The fair value of investments in income properties is dependent upon anticipated future cash flows from operations over the anticipated holding period.

The review of anticipated cash flows involves subjective assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors, which may affect the ultimate value of the property. These assumptions are subjective and may not be ultimately achieved.

The fair value of mortgages receivable depends upon the financial covenant of the issuer and the economic value of the underlying security.

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment would be recognized.

Amortization

Amortization is recorded on buildings using a 5%, 40-year sinking fund basis. A significant portion of the acquisition cost of each property is allocated to the building. The allocation of the acquisition cost to the building and the determination of the useful life are based upon management's

estimates. In the event the allocation to the building is inappropriate or the estimated useful life of the buildings prove incorrect, the computation of amortization will not be appropriately reflected over future periods.

Summary of Changes to Significant Accounting Policies
New accounting policies adopted by the Company in 2003 are as follows:

Funds from operations

Effective in 2003, First Capital Realty discontinued disclosure of funds from operations in its Consolidated Financial Statements, in accordance with revisions to CICA Handbook Sections 1540 ("Cash Flow Statements") and 3500 ("Earnings per Share").

Accounting for operating leases acquired in either an asset acquisition or a business combination

Effective for transactions after September 12, 2003, in accordance with CICA Handbook Sections 1581 ("Business Combinations") and 3062 ("Goodwill and Other Intangible Assets"), the purchase price of income property is allocated to land, building, tenant improvements and intangibles (such as the value of above and below-market leases, origination costs associated with in-place leases and the value of tenant relationships, if any).

The values of the above and below-market leases are amortized and recorded as either a decrease (in the case of above-market leases) or an increase (in the case of below-market leases) to property rental revenue over the remaining term of the associated lease. The values associated with in-place leases and tenant relationships are amortized over the expected term of the relationship, which includes an estimated probability of the lease renewal, and its estimated term. In the event a tenant vacates its leased space prior to the contractual termination of the lease and no rental payments are being made per the lease, any unamortized balance of the related intangible will be expensed. The tenant improvements and origination costs are amortized as an expense over the remaining life of the lease or expensed in full in the event the lease is terminated prior to its contractual expiration date.

In 2003, five properties were acquired subsequent to the implementation of this new policy and accounted for in accordance with the new requirements.

Stock-based compensation and other stock-based payments

During 2003, Section 3870 of the CICA Handbook was amended to require public companies to expense all stock-based compensation over the vesting period, if any, based on the fair value of such awards as measured at the grant date, effective January 1, 2004. These provisions permit prospective application if the fair value based method is applied for fiscal years beginning before January 1, 2004. The Company adopted this policy in 2003 and recorded an expense for options issued during the year. The fair value of options issued prior to January 1, 2003, which is not recorded as an expense under the provisions of this new accounting policy, is disclosed along with pro forma net income per share in Note 12 to the Consolidated Financial Statements.

Other changes that do not impact the Company in 2003 are as follows:

Guarantees

Effective January 1, 2003, the Company implemented the requirements of CICA Accounting Guideline 14, which requires a guarantor to disclose information about guarantees it has provided. Under the Guideline, a guarantee is defined as a contract or indemnification agreement that requires an entity to

make payments to a third party contingent on future events. The disclosures are required even when the likelihood of the guarantor having to make any payments under the guarantee is remote.

Impairment of long-lived assets

The CICA Handbook Section 3063 requires the use of a two-step process for determining when an impairment exists and measuring the amount of the impairment. An asset is deemed to be impaired if its carrying amount exceeds the sum of the undiscounted cash flows expected to result from the direct use over its holding period and eventual disposition of the property. When impairment exists, the impaired asset is written down to its estimated fair value. There was no impairment identified in 2003.

Future changes in accounting policies

CICA Handbook Section 1100 clarifies the hierarchy of GAAP in Canada. It codifies the sources of GAAP for Canadian companies and more clearly establishes the authority of sources of GAAP outside of the CICA Handbook, such as U.S. GAAP. One of the major changes is the removal of industry precedence as an appropriate source of GAAP. The impact of this section on First Capital Realty includes the following:

Amortization of income properties

The sinking fund method of amortization of income properties, currently used by many Canadian public real estate entities, including First Capital Realty, will be discontinued. Effective January 1, 2004, the Company will amortize income properties on a straight-line basis over their remaining estimated useful lives. Management estimates the impact of this change will be to increase the amortization in 2004 by a range of $13 million to $16 million dependent on the assessment of the remaining estimated useful life.

Recognition of rental revenue

Certain leases provide for increases in rental payments over the lease term. Currently, revenue is recognized as it becomes due. Under the new standard, the total amount of rental revenue to be received from such leases is to be accounted for on a straight-line basis over the term of the lease.

Accordingly, a receivable is recorded from the tenants for the current difference between the straight-line rent and the rent that is contractually due from the tenant. The Company has adopted this recommendation, on a prospective basis, effective January 1, 2004. Management has not completed its review and calculation of the impact of this change.

Other future changes in accounting policies including the following:

Hedging relationships

Effective January 1, 2004, CICA Accounting Guideline 13 establishes specific conditions for when hedge accounting may be applied. First Capital Realty has foreign exchange contracts which hedge the dividend income from Equity One. The Company has adopted this recommendation effective January 1, 2004.

Convertible debentures

CICA has issued amendments to Section 3860 of the Handbook that will require the Company's unsecured convertible debentures, presently classified as equity, to be presented as liabilities and the distributions to debenture holders presently classified as a charge to equity to be presented as interest expense. The amendments are effective for fiscal years beginning on or after November 2004 and are to be applied retroactively. The Company will adopt this recommendation effective January 1, 2005.

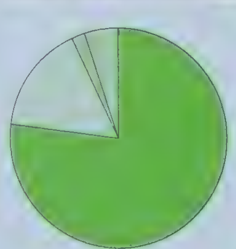
RISK MANAGEMENT

First Capital Realty, as an owner of income property and development land, is exposed to numerous business risks in the normal course of its business that can impact both short and long-term performance. Income and development property are affected by general economic conditions and local market conditions such as oversupply of similar property or a reduction in tenant demand. It is the responsibility of management, under the supervision of the Board of Directors, to identify and, to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk the Company encounters in conducting its business and the manner in which it takes actions to minimize their impact are outlined below.

Operating Risk

The Company's most significant operating risk is the potential for reductions in revenue resulting from an inability to maintain acceptable levels of occupancy and stable or increasing rental rates. An anchor tenant or other tenant may experience a downturn in its business that may weaken its financial condition. As a result, these tenants may default in performing their obligations under their leases.

Portfolio occupancy



Anchor, National and Regional Tenants	77%
Local Tenants	16%
Under Redevelopment	2%
Vacant	5%

First Capital Realty focuses on securing well-capitalized retail tenants such as food supermarkets, drug stores and discount department stores that provide consumers with basic necessities and amenities as distinct from those that cater to more discretionary fashion demands. These tenants, in addition to creating a stable source of long-term rental income, generate customer traffic for the benefit of smaller retail and service tenants. The nature and relationship of the anchors to small shop tenants and the balance between national and local retailers is a key strategy in establishing stable, sustainable revenue from each of First Capital Realty's properties. Approximately 77% of First Capital Realty's total gross leasable area is occupied by anchor, national and regional retail tenants. Management believes that this makes the Company's revenues less susceptible to general economic swings as, even during economic downturns, consumers continue to purchase necessities such as groceries, prescription drugs and basic clothing.

The financial success of First Capital Realty's tenants, operating in well-located, properly maintained and successfully merchandised and positioned properties, will minimize the impact of this risk on the Company. First Capital Realty's lease arrangements with some of its tenants provide for income protection and growth through rent escalations and through a participation in the tenants' sales success in the form of percentage rents which are payable in addition to minimum rents.

First Capital Realty typically enters into net leases whereby its tenants are responsible for payment of taxes and costs of operating and managing the properties. These costs, in addition to mortgage payments and capital expenditures must be paid regardless of whether the property is leased.

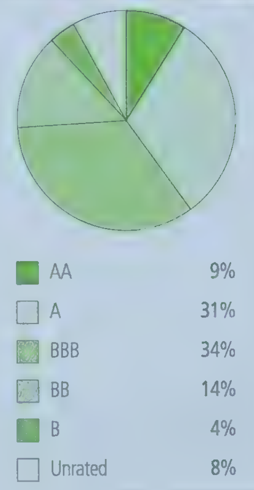
Nature of Tenancies

The Company's properties generate income through rent payments made by tenants of its properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the Company than the existing lease. The Company could be adversely affected, in particular, if any major tenant ceases to be a tenant and cannot be replaced on similar or better terms.

The following chart summarizes the top 25 tenants of the Company, which together represent 56.7% of the Company's annualized minimum rent from its Canadian portfolio.

Tenant	Number of Stores	Square Feet	Percent of Total Square Feet	Percent of Total Annualized Minimum Rent
1. Loblaws	18	929,123	8.7%	9.1%
2. Sobeys	21	869,012	8.1%	8.2%
3. Zellers	15	1,406,032	13.0%	6.5%
4. Canadian Tire / Mark's	12	498,470	4.7%	4.3%
5. Shoppers Drug Mart	17	214,174	2.0%	3.1%
6. Wal-Mart	3	414,613	3.9%	2.8%
7. Canada Safeway	8	285,015	2.7%	2.6%
8. A&P	9	367,346	3.4%	2.5%
9. Metro	6	217,029	2.0%	2.1%
10. A Canadian Chartered Bank	18	87,731	0.8%	1.7%
11. A Canadian Chartered Bank	13	67,167	0.6%	1.4%
12. A Canadian Chartered Bank	14	71,111	0.7%	1.3%
13. Future Shop	4	111,660	1.0%	1.3%
14. LCBO	8	74,680	0.7%	1.2%
15. Tim Hortons / Wendy's	23	67,232	0.6%	1.0%
16. A Canadian Chartered Bank	10	65,747	0.6%	1.0%
17. Rogers	16	64,172	0.6%	0.9%
18. Reitmans Group	14	73,782	0.7%	0.9%
19. Blockbuster	12	60,515	0.6%	0.9%
20. Winners	3	77,009	0.7%	0.7%
21. Pharma Plus	6	38,286	0.4%	0.7%
22. Chapters / Coles	4	52,861	0.5%	0.7%
23. Pharmacie Jean Coutu	6	63,959	0.6%	0.6%
24. A Buck or Two	10	49,755	0.5%	0.6%
25. Toys 'R' Us	2	71,566	0.7%	0.6%
Top 25 Tenants	**272**	**6,298,047**	**58.8%**	**56.7%**

Top 25 tenants by S&P credit rating



Lease Maturities

First Capital Realty's lease maturities are spread on a property-by-property basis, which helps to generate a more stable cash flow and mitigate risks related to changing market conditions. Lease expirations in each of the next ten years range from 3.7% to 8.9% of the total leased area in the Canadian portfolio.

Date	Number of Stores	Square Feet	Percent of Total Square Feet	Annualized Minimum Rent at Expiration	Percent of Total Annualized Minimum Rent	Average Annual Minimum Rent per Square Foot at Expiration
Month-to-month	92	182,030	1.7%	$ 1,542,549	1.2%	$ 8.47
2004	139	277,724	2.6%	4,377,828	3.3%	15.76
2005	181	585,457	5.5%	7,759,979	5.8%	13.25
2006	216	742,339	6.9%	10,170,280	7.6%	13.70
2007	267	780,104	7.3%	12,888,598	9.7%	16.52
2008	243	889,777	8.3%	14,027,666	10.5%	15.77
2009	123	547,494	5.1%	9,773,894	7.3%	17.85
2010	80	368,857	3.4%	6,073,761	4.6%	16.47
2011	58	666,198	6.2%	8,019,487	6.0%	12.04
2012	87	634,224	5.9%	9,881,879	7.4%	15.58
2013	82	677,766	6.3%	7,768,642	5.8%	11.46
Thereafter	142	3,615,400	33.9%	41,111,877	30.8%	11.37
Total	**1,710**	**9,967,370**	**93.1%**	**$ 133,396,440**	**100.0%**	**$ 13.38**

Annual minimum rent by geographic region

Ontario	52%
Quebec	25%
Alberta	21%
Other	2%

Geographic Diversification

The existing First Capital Realty portfolio is concentrated in Ontario, Québec and Alberta. As a result, economic and real estate conditions in these regions will significantly affect the Company's revenues and the value of its properties. There is a trade-off between operational efficiencies and market influence that can be achieved by geographic concentration, and vulnerability to local market influences that can be avoided by geographic diversification. First Capital Realty will seek to add properties in areas where it currently owns shopping centres to take advantage of local market knowledge, anchor tenant relationships and synergies in both management and leasing. The Company does this while taking into account local market conditions that can affect occupancy rates and rental income levels.

Financial Risk

The Company has outstanding indebtedness in the form of mortgages, credit facilities, and convertible debentures and, as such, is subject to the risks normally associated with debt financing, including the risk that the Company's cash flow will be insufficient to meet required payments of principal and interest. In particular, the aggregate principal amount of the convertible debentures due and payable in 2007 and 2008 is $359 million.

There is a possibility that the Company's internally generated cash may not be sufficient to repay all of its outstanding indebtedness. However, the Company may elect to repay indebtedness through refinancings or through the issuance of equity securities. In particular, under the terms of the Company's convertible debentures, the Company is permitted to elect to satisfy the principal amount due on redemption or maturity of those debentures through the issuance of common shares. The Company also has the option to satisfy interest payments on its 7.0% Debentures and 7.25% Debentures in the same manner.

Upon the expiry of the term of the financing on any particular property owned by the Company, refinancing on a conventional mortgage loan basis may not be available in the amount required or may be available only on terms less favourable to the Company than the existing financing. Also, a credit disruption in the capital markets could have an adverse impact on the Company's ability to meet its obligations and grow its business.

To limit the Company's exposure to overall reductions in credit availability in poor economic times, the Company's strategy is to stagger its long-term debt maturities and maintain an adequate level of cash or undrawn credit capacity. First Capital Realty also attempts to arrange stand-alone, limited recourse project financing to further mitigate the potential risk of a lack of replacement financing. In addition, the Company limits the amount of floating rate debt it will incur at any one time in order to insulate itself from interest rate volatility. The Company also strives to maintain and improve its access to capital markets.

Interest Rate Risk

Interest rates effect the profitability of commercial properties as interest paid on mortgages secured by commercial properties represents a significant cost in the ownership of properties.

The Company's strategy to spread the maturities of its debt is also helpful to mitigate its exposure to interest rate fluctuations. The following chart summarizes the Company's fixed and variable components of mortgages and credit facilities.

(thousands of dollars)	2003		2002	
Fixed rate mortgage debt	$ 639,733	81.4%	$ 424,683	70.5%
7.5% debentures	–	–	15,237	2.5%
Variable rate credit facilities – hedged	38,895	4.9%	15,776	2.6%
Variable rate credit facilities – unhedged	107,673	13.7%	146,624	24.4%
Total mortgages and credit facilities	$ 786,301	100.0%	$ 602,320	100.0%

From time to time, the Company may enter into interest rate swap contracts to modify the interest rate profile of its outstanding debt without an exchange of the underlying principal amount. Any ongoing difference payable or receivable on such transactions is recorded as an adjustment to interest expense.

Exchange Rate Risk

The Company's U.S. investment is self-sustaining and financed in part by U.S. dollar-denominated credit facilities, which are serviced by the cash flow generated by the dividends from its U.S. investment. This reduces the Company's exposure to fluctuations in foreign currency exchange rates.

The Company has not traditionally fully hedged its net U.S. dollar asset position. Given that the Company may not have sufficient access to borrowings denominated in U.S. dollars, it is subject to fluctuations in currency exchange rates or regulations, or the costs of currency conversion, which may, from time to time, adversely impact its financial position and results of operations. The book value of U.S. dollar assets, net of U.S. dollar-denominated debt, is approximately US$60 million at December 31, 2003. A 1% strengthening of the Canadian dollar against the U.S. dollar would result in a $1.0 million decrease in the net book value of the Company's net assets in the United States and a decrease in cash flow of approximately $0.1 million.

Acquisition, Expansion and Development Risk

The key to the Company's ongoing success will be its ability to create and enhance value through the skill, creativity and energy of its management team and the opportunities which the market presents. First Capital Realty will continue to seek out acquisition, expansion and selective development opportunities that offer acceptable risk-adjusted rates of return. The Company's acquisition criteria are stringent and its due diligence procedures are rigorous. First Capital Realty uses a team of professionals, including lawyers, engineers, accountants and architects, to thoroughly analyze each proposed acquisition prior to its completion. The Company's senior management team performs a detailed analysis and a personal inspection for each acquisition. First Capital Realty believes that acquisitions should be undertaken only if there is the potential for long-term growth in operating cash flow. Distressed properties are acquired only if the Company is satisfied that the property can become economically viable in a short, predictable period of time.

Integral to this strategy is the Company's ability to identify suitable acquisition or investment opportunities that meet its criteria and are consistent with its growth strategy. In the future the Company may not be successful in identifying suitable real estate assets or other businesses that meet its acquisition criteria, or completing acquisitions or investments on satisfactory terms. Failure to identify or complete acquisitions could reduce the number of acquisitions and may slow the Company's growth.

In addition, the Company competes for suitable real property investments with individuals, corporations, real estate investment companies, trusts and other institutions (both Canadian and foreign) which may seek real property investments similar to those desired by the Company. Many of these investors may also have financial resources, which are comparable to, or greater than, those of the Company. An increase in the availability of investment funds, and an increase of interest in real property investments, would tend to increase competition for real property investments thereby increasing purchase prices and reducing the yield thereon.

Further, the Company's development commitments are subject to those risks usually attributable to construction projects, which include (i) construction or other unforeseeable delays; (ii) cost overruns; (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; and (iv) increase in interest rates during the life of the development.

Environmental Risk

Under various federal and provincial laws, the Company as an owner, and potentially as a person in control or management of real property, could become liable for costs of investigation, remediation and monitoring of certain contaminants, hazardous or toxic substances present at or released from its properties. The failure to address such matters, if any, may adversely affect the ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims, including proceedings by government regulators or third party lawsuits, against the owner of the property.

Shopping centres generally pose minimal environmental risk as very few tenants manufacture, process or store substances that would be considered environmentally unsafe. The major exceptions to this general rule can be gas stations situated on out-parcels adjacent to shopping centre properties and some dry cleaning establishments. The primary responsibility for any environmental remediation rests with the party responsible for creating the contamination, although the Company may also be liable. First Capital Realty maintains a program of periodically reviewing and testing its properties to determine if environmental problems exist and includes, as a standard covenant in its leases, a prohibition against environmentally unsound activities. The Company undertakes a professionally conducted environmental audit before it completes the acquisition of any property in order to help mitigate environmental risk.

Economic Conditions

The economic conditions in the markets in which the Company operates can have a significant impact on the Company's financial success. Adverse changes in general or local economic conditions can result in some retailers being unable to sustain viable businesses and meet their lease obligations to the Company, and may also limit the Company's ability to attract new or replacement tenants. Management believes that First Capital Realty's shopping centres are generally less susceptible to economic downturns, as they cater to the basic needs of the retail customer by having food supermarkets, drug stores, financial services, and discount department stores as tenants. In addition, the impact of economic conditions on the overall First Capital Realty portfolio has been mitigated through the long-term nature of its existing leases, the strength of its tenants and through geographic diversification.

Management believes that the Company's shopping centres are generally less susceptible to economic downturns, as they cater to the basic needs of the retail customer.

Effects of Inflation

Inflation has remained relatively low since First Capital Realty commenced operations in March 1994. As a result, inflation has had a minimal impact on the Company's operating performance to date. Nevertheless, most of First Capital Realty's long-term leases contain provisions designed to mitigate the adverse impact of inflation. These provisions include a pass-through of operating costs, including realty taxes and most management expenses, which insulates the Company from inflationary price increases. In addition, some leases include clauses that allow the Company to receive percentage rents based on tenants' gross sales, which generally increase as prices rise. Many of the Company's long-term leases include rent escalation clauses, which increase rental rates over the term of the lease at either pre-negotiated levels or levels determined by reference to increases in the Consumer Price Index. Many of the Company's non-anchor leases are for terms of five years or less, providing the Company with the opportunity to achieve rent increases on renewal or when re-leasing the space.

Foreign Equity Investments

The Company holds a significant equity investment in Equity One, and may acquire investments in other U.S. REITs or real estate investment vehicles from time to time. The value of the Company's investments of this nature is subject to the risks inherent in investments in equity securities, including the risk that the financial condition of the issuers of the equity securities held by the Company may become impaired or that the general condition of the stock market may deteriorate. They are also subject to risks associated with real property ownership, which are similar to those described for the Company itself. Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in, and perceptions of, their issuers change. These investor perceptions are based on various and unpredictable factors including expectations regarding government, economic, monetary and fiscal policies, inflation and interest rates, economic expansion or contraction, and global or regional political, economic and banking crises.

In 2003, the Company achieved its objectives of growing the business, increasing funds from operations and the public float of its common shares, resulting in a stronger balance sheet.

General Uninsured Losses

The Company carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risk (generally of a catastrophic nature such as war, terrorist acts or environmental contamination) which may be either uninsurable, in whole or in part, or in the opinion of management, not economically insurable. Should an uninsured or underinsured loss occur, the Company could lose its investment in, and anticipated profit and cash flows from, one or more of its properties, and the Company would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

OUTLOOK

In 2003 First Capital Realty made significant progress in meeting all of its stated goals and objectives. Specifically, the Company grew the business and generated solid increases in funds from operations, while finishing the year with a stronger balance sheet and a larger public float of common shares.

Key operating performance measures achieved in 2003 are:

- Invested $253 million in the acquisition of income-producing properties comprising 1.7 million square feet of gross leasable area.
- Invested $93 million in the acquisition of land, development and redevelopment at the Company's properties.
- Increased the average rental rate per occupied square foot from $11.92 to $12.66 and the portfolio occupancy from 91.7% to 93.1%.

Key measures of financial condition at December 31 are:

- Increased total market capitalization by $0.5 billion to $1.6 billion.
- Decreased net debt to total market capitalization (convertible debentures treated as debt) from 81.4% to 66.1%.

For 2004, our business objectives are:

- to increase the size of the Company's income-producing portfolio while maintaining asset quality;
- to increase the cash flow from operations through increased rental rates and portfolio occupancy;
- to continue to grow the business at approximately the same debt ratio as at year-end 2003; and,
- to increase the number of the Company's publicly traded common shares and the public market capitalization.

First Capital Realty has a very focused and clear strategy on managing and growing the Company's business, and management believes it is well positioned to continue to deliver increased value to investors. Management remains optimistic that the Company will be able to continue expansion of its portfolio through accretive acquisitions and development activities in 2004. The Company's superior locations and well maintained properties should continue to attract and retain tenants that provide customers with daily necessities. As a result, management is confident that the quality of the Company's real estate will continue to generate stable cash flows in 2004 and superior returns on investment over the long term.

Shopping Centre Portfolio

Property Name	Location	Year Built or Acquired	Gross Leasable Area	Major or Anchor Tenants
ONTARIO				
Cedarbrae Mall	Toronto	1996	474,000	Loblaws, Zellers, Canadian Tire, Toys 'R' Us, LCBO, Scotiabank, CIBC, Bally Total Fitness
Fairview Mall	St. Catharines	1994	385,000	Food Basics (A&P), Zehrs [1] (Loblaws), Zellers, Cineplex, Chapters, Office Depot, Future Shop, Mark's Work Wearhouse, LCBO, CIBC, Scotiabank
Meadowvale Town Centre	Mississauga	2003	370,000	Dominion (A&P), Canadian Tire, Shoppers Drug Mart, LCBO, TD Canada Trust, CIBC, Bank of Montreal
Gloucester City Centre	Ottawa	2003	337,000	Loblaws, Zellers, Pharma Plus, Scotiabank, CIBC
Brantford Mall	Brantford	1995	320,000	Zehrs (Loblaws), Wal-Mart, Cineplex, LCBO, CIBC, SAAN
Brampton Corners	Brampton	2001	291,000	Fortino's (Loblaws), Wal-Mart, Kelsey's, Chapters, National Bank, Scotiabank
Tillsonburg Town Centre [2]	Tillsonburg	1994	244,000	Valu-Mart (Loblaws) [3], Zellers, Canadian Tire, LCBO, CIBC, TD Canada Trust
Parkway Centre	Peterborough	1996	222,000	Price Chopper (Sobeys), Zellers, Winners
Bridgeport Plaza	Waterloo	1994	211,000	Sobeys, Zellers, Rogers Video, Laurentian Bank
Harwood Plaza	Ajax	1999	199,000	Food Basics (A&P), Shoppers Drug Mart, Blockbuster, Scotiabank
Stanley Park Mall	Kitchener	1997	188,000	Zehrs (Loblaws), Zellers, Pharma Plus, LCBO, TD Canada Trust
Appleby Mall	Burlington	2004	173,000	Loblaws, Pharma Plus, Bank of Montreal, LCBO
Queenston Place	Hamilton	1995	172,000	Zellers, Mark's Work Wearhouse, Penningtons (Reitmans)
Sheridan Plaza	Toronto	1996	168,000	Food Basics (A&P), Zellers
University Plaza	Windsor	2001	152,000	A&P, Canadian Tire, Shoppers Drug Mart, Bank of Montreal
Westney Heights Plaza	Ajax	2002	148,000	Sobeys, Shoppers Drug Mart, CIBC, Scotiabank, TD Canada Trust
Ambassador Plaza	Windsor	1994	137,000	Zellers, LCBO, CIBC, Scotiabank
Festival Marketplace	Stratford	1997	126,000	Sears [8], Canadian Tire [1]
Orleans Gardens [4]	Ottawa	1997	111,000	Your Independent Grocer (Loblaws), Rogers Video, CIBC, Scotiabank
McLaughlin Corners [4]	Brampton	2002	110,000	A&P, Shoppers Drug Mart, Rogers Video, Pizza Hut, Royal Bank
Norfolk Mall	Tillsonburg	2004	100,000	Zehrs (Loblaws) [1], Wal-Mart
Maple Grove Village	Oakville	2003	98,000	Sobeys, Pharma Plus, CIBC, Rogers Video
Thickson Place	Whitby	1997	93,000	A&P, Toys 'R' Us [1], CIBC, TD Canada Trust
Byron Village	London	2002	89,000	A&P, Pharma Plus, LCBO, Rogers Video, TD Canada Trust
Credit Valley Town Plaza	Mississauga	2003	84,000	Loblaws, Pharma Plus, Rogers Video, CIBC, TD Canada Trust
Dufferin Corners [5]	Toronto	2003	76,000	Winners, Shoppers Drug Mart, TD Canada Trust
Midland Lawrence Plaza	Toronto	2002	76,000	Price Chopper (Sobeys)
Eagleson Place	Ottawa	1997	75,000	Loblaws, CIBC
Towerhill Shopping Centre	Peterborough	2001	70,000	Sobeys, Government of Canada
Steeple Hill Shopping Centre	Pickering	2000	66,000	Price Chopper (Sobeys), Shoppers Drug Mart, Blockbuster
Wellington Corners	London	1999	62,000	Price Chopper (Sobeys), Shoppers Drug Mart
Northfield Centre [4]	Waterloo	1999	52,000	Sobeys, Pharma Plus, Rogers Video, Royal Bank
Yonge-Davis Centre	Newmarket	2003	50,000	Sleep Country
3434 Lawrence	Toronto	2003	50,000	
Delta Centre	Cambridge	1998	49,000	Price Chopper (Sobeys)
Bayview Lane Plaza	Markham	2003	48,000	Food Basics (A&P), Bank of Montreal
Brooklin Towne Centre [4]	Whitby	2003	39,000	Price Chopper (Sobeys)
Eagleson Cope Drive	Ottawa	2003	–	Loblaws
			5,715,000	
QUEBEC				
Galeries Normandie	Montréal	2002	224,000	IGA (Sobeys), Provigo (Loblaws), Rossy, Royal Bank, Bank of Montreal, SAQ, Baron Sports
Centre Domaine	Montréal	2002	193,000	Metro [4], Zellers, Rossy, CIBC
Les Galeries de Lanaudière [4]	Lachenaie	2002	184,000	Staples, Winners, Future Shop, Sears Home, Pier 1 Imports, Home Depot [1]
Centre commercial Côte St. Luc	Montréal	2002	183,000	IGA (Sobeys), Jean Coutu, SAQ, Blockbuster, Royal Bank, World Gym
Plaza Delson	Delson	2002	164,000	Loblaws, Jean Coutu, Cineplex, SAQ, National Bank
Carrefour St. Hubert	Longueuil	2002	156,000	Provigo (Loblaws), Jean Coutu, CIBC, Bombardier
La Porte de Gatineau	Gatineau	1994	155,000	Maxi (Loblaws), Toys 'R' Us [1], Future Shop, CIBC, TD Canada Trust, SAQ
Place Viau	Montréal	2002	152,000	Maxi (Loblaws), Zellers
Promenades Levis	Lévis	2004	141,000	Metro, Bank of Montreal, SAQ

Property Name	Location	Year Built or Acquired	Gross Leasable Area	Major or Anchor Tenants
La Porte de Châteauguay	Châteauguay	1995	132,000	Zellers, Blockbuster
Centre commercial Beaconsfield	Montréal	2002	124,000	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank
Centre commercial Wilderton	Montréal	2002	124,000	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank, Laurentian Bank
Centre Maxi Trois-Rivières	Trois-Rivières	2003	122,000	Maxi (Loblaws), Value Village, Jean Coutu, Blockbuster, Bank of Montreal
Place Pointe-aux-Trembles	Montréal	2002	121,000	Metro, Rossy, Jean Coutu
Les Galeries de Repentigny	Repentigny	1997	119,000	Super C (Metro), Pharmaprix (Shoppers Drug Mart), Royal Bank
Place Fleury	Montréal	2002	115,000	Metro, Pharmaprix (Shoppers Drug Mart), SAQ
Centre commercial Maisonneuve (2)	Montréal	2003	113,000	Provigo (Loblaws), Canadian Tire, TD Canada Trust, SAQ
Carrefour Vanier	Québec City	2004	107,000	Toys 'R' Us
Les Promenades du Parc	Longueuil	1997	103,000	IGA (Sobeys), Blockbuster, Laurentian Bank
Plaza Don Quichotte	Île Perrot	2004	99,000	IGA (Sobeys), SAQ, Caisse populaire Desjardins
Centre commercial Van Horne	Montréal	2002	80,000	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Royal Bank
Place des Cormiers	Sept-Îles	2004	75,000	Provigo (Loblaws), Bureau en Gros (Staples), SAQ
Place Vilamont	Laval	2002	72,000	Provigo (Loblaws), Jean Coutu, Laurentian Bank
Carrefour Don Quichotte	Île Perrot	2004	72,000	Metro, Pharmacie Essaim
Plaza Laval Élysée	Laval	2004	63,000	Provigo (Loblaws), Pharmaprix (Shoppers Drug Mart)
Place Cité Des Jeunes	Gatineau	2001	59,000	Metro, Uniprix
Galeries Brien	Repentigny	2002	58,000	IGA (Sobeys), Uniprix
Place Nelligan (5)	Gatineau	2002	57,000	IGA (Sobeys)
Le Campanîle	Montréal	2003	56,000	Pharmaprix (Shoppers Drug Mart), Bank of Montreal
Place de la Colline	Chicoutimi	2004	52,000	Provigo (Loblaws), Uniprix
Toys 'R' Us / Pier 1 Imports	Montréal	2002	52,000	Toys 'R' Us, Pier 1 Imports
Place Seigneuriale	Québec City	2004	50,000	Metro, Royal Bank, Nautilus Plus
Place Provencher	Montréal	2004	46,000	Bureau en Gros (Staples), Uniprix
Carrefour du Versant	Gatineau	2003	43,000	IGA (Sobeys)
Place Roland Therrien	Longueuil	2000	42,000	Super C (Metro) (1), Scotiabank, Blockbuster
Place du Commerce	Montréal	2004	40,000	IGA (Sobeys), Jean Coutu
Village des Valeurs	Laval	2002	27,000	Value Village
Place Bordeaux (6)	Gatineau	2002	17,000	Pharmaprix (Shoppers Drug Mart)
			3,792,000	
WESTERN CANADA				
Northgate Centre	Edmonton, AB	1997	513,000	Safeway, Zellers, Future Shop, Sport Mart, Royal Bank
South Park Centre	Edmonton, AB	1996	378,000	Canadian Tire, Zellers, Toys 'R' Us (1), Office Depot (Safeway), Linens 'n Things, Laura's Shoppes, Sport Chek
Red Deer Village	Red Deer, AB	1999	201,000	Sobeys, Canadian Tire, Mark's Work Wearhouse, Sport Mart, TD Canada Trust, Rogers Video
Royal Oak (7)	Calgary, AB	2003	176,000	Sobeys, Wal-Mart
The Village Market	Sherwood Park, AB	1997	113,000	Safeway, London Drugs, Scotiabank
McKenzie Towne Centre	Calgary, AB	2003	109,000	Sobeys, Super Drug Mart, Blockbuster
Gateway Village	St. Albert, AB	1994	107,000	Safeway, CIBC, Royal Bank, Scotiabank
Tuscany Market	Calgary, AB	2003	86,000	Sobeys, Super Drug Mart, Scotiabank
West Lethbridge Towne Centre	Lethbridge, AB	1998	83,000	Safeway, Home Hardware, Blockbuster
Old Strathcona (4)	Edmonton, AB	2003	79,000	Canada Post, Edward D. Jones
Sherwood Centre	Sherwood Park, AB	1997	76,000	Save-on-Foods (1), CIBC, Rogers Video
London Place West	Calgary, AB	1998	71,000	London Drugs, Rogers Video, Bank of Montreal
Regent Park Shopping Centre	Regina, SK	1999	66,000	Safeway, Scotiabank
Leduc Towne Square	Leduc, AB	1997	48,000	Safeway (1), Canadian Tire (1), Shoppers Drug Mart, SAAN
Sherwood Towne Square	Sherwood Park, AB	1997	41,000	Home Depot (1), Staples
Registan Shopping Centre	Regina, SK	1999	26,000	Safeway, Scotiabank
			2,173,000	
MARITIMES				
Cole Harbour Shopping Centre	Dartmouth, NS	1997	52,000	Sobeys (1), Canadian Tire (1), Shoppers Drug Mart, TD Canada Trust
Ropewalk Lane	St. John's, NL	1997	40,000	Dominion (Loblaws) (1)
			92,000	
TOTAL CANADA			**11,772,000**	

(1) Tenant (or other) owned.
(2) Interest is leasehold.
(3) The store is currently unoccupied, however, the tenant continues to pay rent.
(4) 50% interest owned by First Capital Realty Inc.
(5) 75% interest owned by First Capital Realty Inc.
(6) 80% interest owned by First Capital Realty Inc.
(7) 60% interest owned by First Capital Realty Inc.
(8) Sub-tenant

Management's Responsibility

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with generally accepted accounting principles.

The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 12, 2004.

Management is also responsible for the maintenance of financial and operating systems, which include effective controls to provide reasonable assurance that the Company's assets are safeguarded and that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities through its Audit Committee whose members are not involved in day-to-day operations of the Company. Each quarter the Audit Committee meets with management and, as necessary, with the independent auditors, Deloitte & Touche LLP, to satisfy itself that management's responsibilities are properly discharged and to review and report to the Board on the consolidated financial statements.

In accordance with generally accepted auditing standards, the independent auditors conduct an examination each year in order to express a professional opinion on the consolidated financial statements.

Dori J. Segal
President and Chief Executive Officer

Karen H. Weaver, CPA
Chief Financial Officer

Auditors' Report

To the Shareholders of First Capital Realty Inc.

We have audited the consolidated balance sheets of First Capital Realty Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Toronto, Ontario
March 12, 2004

Consolidated Balance Sheets

December 31 (thousands of dollars)	2003	2002
ASSETS		
Real Estate Investments		
Shopping centres (note 3)	$ 1,201,330	$ 875,617
Land and shopping centres under development (note 4)	62,845	51,555
Investment in Equity One, Inc. (note 5)	211,412	208,972
Loans and mortgages receivable (note 6)	19,854	16,838
	1,495,441	1,152,982
Other assets (note 7)	20,397	18,255
Amounts receivable	7,134	4,541
Cash and cash equivalents (note 8(b))	79	365
Future income tax assets (note 15)	15,638	19,595
	$ 1,538,689	$ 1,195,738
LIABILITIES		
Mortgages and credit facilities (note 8)	$ 786,301	$ 587,083
Accounts payable and accrued liabilities (note 9)	54,410	38,356
Convertible debentures payable (note 10)	20,234	41,272
Debentures payable (note 11)	–	15,237
Future income tax liabilities (note 15)	12,750	6,034
	873,695	687,982
SHAREHOLDERS' EQUITY (note 12)	664,994	507,756
	$ 1,538,689	$ 1,195,738

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

Chaim Katzman
Director

Dori J. Segal
Director

Consolidated Statements of Operations

Year ended December 31 (thousands of dollars, except per share amounts)	2003	2002
REVENUE		
Property rental revenue	$ 154,656	$ 125,635
Interest and other income	2,715	2,607
	157,371	128,242
EXPENSES		
Property operating costs	58,799	47,318
Interest expense (note 13)	43,324	40,626
Amortization (note 14)	12,574	9,931
Corporate expenses	8,575	6,833
	123,272	104,708
Equity income from Equity One, Inc. (note 5)	19,095	21,606
Income before the undernoted	53,194	45,140
Dilution gain on investment in Equity One, Inc. (note 5)	17,911	3,290
Income before income and other taxes	71,105	48,430
Income and other taxes (note 15):		
Current	4,917	5,274
Future	22,162	13,522
	27,079	18,796
Net income	$ 44,026	$ 29,634
Net earnings per common share (note 16)		
Basic and diluted	$ 0.91	$ 0.74

See accompanying notes to the consolidated financial statements

Consolidated Statements of Deficit

Year ended December 31 (thousands of dollars)	2003	2002
Deficit, beginning of year	$ (85,757)	$ (69,324)
Net income for the year	44,026	29,634
Interest and accretion on equity component of convertible debentures (net of tax of $10,288; 2002 – $10,632)	(21,877)	(17,159)
Issuance of rights to acquire warrants	–	(10,210)
Dividends	(30,507)	(18,698)
Deficit, end of year	$ (94,115)	$ (85,757)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Year ended December 31 (thousands of dollars)	2003	2002
CASH FLOW PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	$ 44,026	$ 29,634
Items not affecting cash		
Amortization (note 14)	11,364	8,859
Amortization of financing fees	1,210	1,072
Loss (gain) on disposition of marketable securities	(74)	138
Loss (gain) on disposition of shopping centres	275	(591)
Non-cash compensation expense	273	–
Equity income from Equity One, Inc.	(19,095)	(21,606)
Dilution gain on investment in Equity One, Inc.	(17,911)	(3,290)
Future income taxes	22,162	13,522
Deferred leasing costs	(4,886)	(5,488)
Dividends received from Equity One, Inc.	19,033	18,575
Net change in non-cash operating items	8,410	(1,646)
Cash provided by operating activities	64,787	39,179
INVESTING ACTIVITIES		
Acquisition of shopping centres	(235,309)	(105,502)
Acquisition of land for development	(6,266)	(21,100)
Acquisition of intangible assets and liabilities	(1,376)	–
Proceeds on disposition of land and shopping centres	2,911	8,770
Redevelopment of shopping centres	(12,695)	(5,030)
Expenditures on land and shopping centres under development	(71,280)	(49,759)
Investment in common shares of Equity One, Inc.	(29,375)	(13,209)
Acquisition of First Capital Inc.	–	1,657
Advances to development partners	(4,590)	(936)
Investment in marketable securities	(3,768)	(5,551)
Disposition of marketable securities	4,908	6,966
Cash used in investing activities	(356,840)	(183,694)
FINANCING ACTIVITIES		
Proceeds of mortgage financings and credit facilities	317,107	128,890
Repayments of mortgages payable and credit facilities	(110,086)	(25,097)
Payment of financing fees	(2,665)	(1,523)
Issuance of common shares	137,618	22,106
Issuance of convertible debentures	–	5,000
Repayment or retirement of debentures	(15,057)	(553)
Payments on convertible debentures, net of interest expensed	(8,715)	(10,188)
Payment of dividends	(26,322)	(17,631)
Cash provided by financing activities	291,880	101,004
Effect of currency rate movement on cash balances	(113)	(75)
Decrease in cash and cash equivalents	(286)	(43,586)
Cash and cash equivalents, beginning of the year	365	43,951
Cash and cash equivalents, end of the year	$ 79	$ 365
SUPPLEMENTARY INFORMATION		
Cash income taxes paid	$ 5,386	$ 4,664
Cash interest paid (note 13)	$ 55,647	$ 52,840

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

1 Significant Accounting Policies

The Company was incorporated under the laws of Ontario to engage in the business of acquiring, expanding, developing, redeveloping and owning neighbourhood and community shopping centres. The Company's accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles. The Company's significant accounting policies are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, trusts, and the Company's proportionate share of assets, liabilities, revenues and expenses of partnership and limited liability corporate ventures, which are accounted for using the proportionate consolidation method. The Company's investment in Equity One, Inc. is accounted for on the equity basis.

(b) Shopping Centres

Shopping centres are stated at cost less accumulated amortization. If it is determined that the carrying amount of a property exceeds the undiscounted estimated future net cash flows expected to be received from the ongoing use and residual worth of the property, it is reduced to its estimated fair value.

In accordance with CICA 1581 and CICA 3062, effective for transactions after September 12, 2003, the purchase price of shopping centre properties is allocated to land, building, tenant improvements, and intangibles such as the value of above and below-market leases, origination costs associated with in-place leases and the value of tenant relationships, if any.

(c) Land and Shopping Centres Under Development

Land and shopping centres under development are stated at cost. If it is determined that the carrying amount of a property exceeds the undiscounted estimated future net cash flows expected to be received from the ongoing use and residual worth of the completed property, after taking into account estimated costs to complete the development, it is reduced to its estimated fair value.

Cost includes all expenditures incurred in connection with the acquisition, development, redevelopment and initial leasing of the properties. These expenditures include acquisition costs, construction costs, initial leasing costs, other direct costs, building improvement costs and carrying costs. Carrying costs (including property taxes and interest on both specific and general debt, net of operating results) are capitalized to the cost of the properties until the accounting completion date (which is based on achieving a satisfactory occupancy level within a predetermined time limit). Upon completion, the properties are classified as shopping centres.

(d) Property Rental Revenue

Property rental revenue includes rents earned from tenants under lease agreements, including percentage participation rents, property tax and operating cost recoveries, and incidental income, including lease cancellation payments.

(e) Amortization

The Company follows the sinking-fund method of amortizing its buildings and improvements. Under this method, amortization is charged to income in increasing annual amounts consisting of fixed annual sums, together with interest compounded at the rate of 5% per annum, so as to fully amortize the properties over their estimated useful lives, which vary but do not exceed 40 years.

Leasing fees and tenant inducements incurred on securing leases, other than initial leases, are amortized over the term of such leases on a straight-line basis.

The values of the above and below-market leases are amortized and recorded as either an increase (in the case of below-market leases) or a decrease (in the case of above-market leases) to property rental revenue over the remaining term of the associated leases. The value of in-place leases and tenant relationships is amortized over the expected term of the relationship. Tenant improvements are amortized over the remaining life of the associated leases.

The Company amortizes commitment fees and other costs incurred in connection with debt financing over the term of such financing on a straight-line basis.

(f) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and short-term market investments with original maturities of three months or less.

(g) Foreign Currency

The Company carries on business in the United States through operationally and financially self-sustaining entities.

Assets and liabilities denominated in United States dollars are translated into Canadian dollars at year-end exchange rates. The resulting net gains or losses are accumulated as a separate component of shareholders' equity. Revenues and expenses denominated in United States dollars are translated at the weighted average daily exchange rate for the year.

(h) Derivative Financial Instruments

Derivative financial instruments are utilized by the Company in the management of its foreign currency and interest rate exposures. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company uses forward exchange contracts to manage its foreign exchange risk exposures. The resulting gains or losses on forward exchange contracts, which represent designated hedges of foreign currency-denominated cash flows, are recorded in the cumulative translation account in shareholders' equity as an offset to the above gains or losses. Any excess gains or losses arising from differences between the notional amount of the forward exchange contracts and the actual cash flows are recorded in the consolidated statements of operations.

From time to time, the Company may enter into interest rate swap contracts to modify the interest rate profile of its outstanding debt without an exchange of the underlying principal amount. The initial cost of entering into such transactions is recorded as interest expense over the term of the debt. Any ongoing difference payable or receivable on such transactions is recorded as an adjustment to interest expense.

1 Significant Accounting Policies continued

(i) Convertible Debentures

The Company presents its convertible debentures in their debt and equity component parts where applicable, as follows:

(i) The debt component represents the value of the semi-annual interest obligations to be satisfied by cash, discounted at the rate of interest that would have been applicable to a debt-only instrument of comparable term and risk at the date of issue. As a result, a portion of the semi-annual interest payments has been treated as a reduction of the debt component and the remainder as interest expense.

(ii) The equity component of the convertible debentures is presented under "Shareholders' Equity" in the consolidated balance sheets. A value is ascribed to the equity component as a result of the Company's ability upon maturity to convert the debentures into common shares, and is increased over its term to the full face value of the debentures by an annual charge to the deficit. In addition, debentures that provide the Company with the ability to satisfy the interest payments through the issuance of common shares are also included in the equity component of convertible debentures. A value is also ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the debentures.

(iii) Debenture issue costs are proportionately allocated to their respective debt and equity components. The debt component of the issue costs is classified as deferred financing costs, and is amortized on a straight-line basis over the term of the debentures. The equity component of the issue costs reduces the carrying value of the equity component of the convertible debentures.

(j) Income Taxes

Income taxes are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which the differences are expected to reverse.

(k) Stock-Based Compensation Plan

The Company has a stock-based compensation plan, which is described in note 12(d). Any consideration paid on the exercise of stock options is credited to share capital.

The Company accounts for stock-based compensation using the fair value method. Under the fair value method, compensation expense for stock-based compensation is measured at fair value at the grant date using an option pricing model and is recognized over the vesting period.

(l) Use of Estimates

The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from such estimates.

2 Change in Accounting Policy

The Company has a stock-based compensation plan as described in note 12(d). Effective January 1, 2003, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to stock-based compensation. The new standard requires stock-based payments and direct awards made to non-employees and direct awards, stock appreciation rights and similar awards to employees that are settled in cash or equity instruments to be determined using a fair value based method.

In accordance with the new standard, the Company recognizes compensation expense for stock-based compensation awards at the fair value as at the granting date over the vesting period. This change has been made on a prospective basis, and as such applies only to grants made on or after January 1, 2003.

During the year ended December 31, 2003, the Company granted 250,500 options which had an approximate fair value of $0.3 million at the time of issue. In accordance with the new standard, $0.1 million has been recorded as an expense in the consolidated statements of operations.

Effective January 1, 2003, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to impairment of long-lived assets. The adoption of this standard had no impact on the consolidated financial statements.

3 Shopping Centres

(thousands of dollars)	2003	2002
Land	$ 237,057	$ 154,856
Buildings and improvements	984,927	738,512
Deferred leasing costs	21,634	15,418
	1,243,618	908,786
Accumulated amortization	(42,288)	(33,169)
	$ 1,201,330	$ 875,617

In 2003, the Company acquired interests in 18 properties totalling 1.7 million square feet for $249.2 million. The properties were financed with $107.1 million in cash, $10.0 million in assumed mortgages, $129.6 million in new mortgages, and $2.5 million in shares of the Company.

In 2002, in addition to the eight properties acquired as part of the FCI transaction described in note 19, the Company acquired ten properties totalling 1.2 million square feet for a total of $105.5 million. These properties were financed with $53.9 million in cash, $15.0 million with a short-term vendor take back mortgage which was repaid before year end, $35.7 million in new mortgages, and $0.9 million in shares of the Company.

The Company's interests in two leasehold properties (2002 – one), have a net book value of $21.8 million (2002 – $16.5 million) net of accumulated amortization of $1.8 million (2002 – $1.6 million).

4 Land and Shopping Centres Under Development

Interest and general and administrative expenses capitalized to development properties during the year ended December 31, 2003 totalled $3.5 million, (2002 – $1.8 million) and $0.3 million (2002 – $0.3 million), respectively. The costs to complete projects currently under development are estimated at $40 million of which $28 million has been committed.

5 Investment in Equity One, Inc.

Equity One, Inc. ("Equity One") (NYSE: EQY), is a self-administered and self-managed real estate investment trust in the United States. The following table summarizes the activity of the investment in Equity One.

(thousands of dollars)	2003	2002
Investment in Equity One, beginning of year	$ 208,972	$ 190,774
Equity income	19,095	21,606
Less dividends received	(19,033)	(18,575)
Purchase of Equity One common shares (a)	29,375	13,209
Dilution gain (b)	17,911	3,290
Cumulative currency effect	(44,908)	(1,332)
Investment in Equity One, end of year (c)	$ 211,412	$ 208,972
Weighted average ownership interest in Equity One	20%	33%

The Company and Equity One are each indirectly controlled subsidiaries of Gazit Globe (1982) Ltd. ("Gazit"), an Israeli corporation trading on the Tel Aviv Stock Exchange.

(a) In connection with a private placement and a public offering of Equity One's common shares and through participation in Equity One's dividend reinvestment plan, the Company's U.S. subsidiaries acquired an additional 1,396,169 (2002 – 630,286) common shares of Equity One at an average price of US$14.35 (2002 – US$13.26) per share.

(b) Equity One's number of common shares outstanding increased from 34.2 million to 68.7 million, resulting in a reduction of the Company's ownership interest in Equity One from 33% at December 31, 2002 to 18% at December 31, 2003. As a result, the Company has recorded a dilution gain of $17.9 million (2002 – $3.3 million) during the year.

(c) The closing price on the NYSE of Equity One's common shares at December 31, 2003 was US$16.88 (December 31, 2001 – US$13.35) per share. The book value per share of the Company's investment in Equity One at December 31, 2003 is US$13.02 (December 31, 2002 – US$11.90). At December 31, 2003, 68.7 million (December 31, 2002 – 34.2 million) shares of Equity One were outstanding, of which 12.5 million shares (December 31, 2002 – 11.1 million shares) were held by the Company.

6 Loans and Mortgages Receivable

(thousands of dollars)	2003	2002
Loans receivable from development partners (a)	$ 17,885	$ 12,148
Loans and mortgages receivable (b)	1,969	4,690
	$ 19,854	$ 16,838

(a) The Company has funded its partners' share of certain development activities. The loans bear interest at an average of 10% and are repayable from the partners' share of proceeds generated from refinancings or sales. The Company has taken assignments of the development partners' equity interests in the development partnerships as security for the loans receivable.

(b) The Company has interests in various loans and mortgages receivable which bear interest at varying rates currently ranging from 8% to 9% per annum, are secured by real estate assets similar in nature to the Company's shopping centres and mature over varying periods through 2021.

7 Other Assets

(thousands of dollars)	2003	2002
Deferred financing, issue and interest rate hedge costs (net of accumulated amortization of $6,042 (2002 – $5,627))	$ [illegible]	$ 7,861
Prepaid expenses and other assets	9,324	7,200
Deposits and costs on properties under option	2,310	3,194
Intangible assets purchased on acquisition of properties	1,575	–
	$ 20,397	$ 18,255

8 Mortgages and Credit Facilities

(a) Mortgages and credit facilities, are secured by shopping centres and the Equity One common shares.

	2003			2002
(thousands of dollars)	Canada	U.S.	Total	Total
Fixed rate	$ 639,733	$ 38,895	$ 678,628	$ 440,459
Floating rate	37,758	69,915	107,673	146,624
	$ 677,491	$ 108,810	$ 786,301	$ 587,083

Canada

Fixed rate financing bears interest at an average fixed rate of 7.0% (2002 – 7.3%) and matures in years ranging from 2004 to 2019. Floating rate financing bears interest at floating rates determined by reference to Canadian prime lending and bankers' acceptance rates and matures by 2005.

United States

Floating rate financing bears interest at the London Inter-Bank Offering Rate ("LIBOR") plus 150 – 220 basis points and matures in 2007. Floating rate financing of $13.0 million (US$10.0 million) has been capped at 7.0% until September 2006. Fixed rate financing is comprised of LIBOR swap agreements on a notional US$30 million (2002 – US$10 million) at an average fixed rate of 4.3% (2002 – 4.6%) plus applicable spreads and matures by 2013.

The following table summarizes the principal repayments of mortgages and credit facilities, as at December 31, 2003.

(thousands of dollars)	Canada	U.S.	Total
2004	$ 56,907	$ 12,634	$ 69,541
2005	47,653	6,416	54,069
2006	31,400	12,629	44,029
2007	63,126	77,131	140,257
2008	42,936	–	42,936
Thereafter	435,469	–	435,469
	$ 677,491	$ 108,810	$ 786,301

(b) At December 31, 2003, the Company has $73.0 million of undrawn credit facilities, which are secured by certain shopping centres and a portion of its investment in Equity One, available for acquisitions, development, and general corporate purposes. In addition, the Company has unencumbered shopping centres with a book value of approximately $21.6 million.

9 Accounts Payable and Accrued Liabilities

(thousands of dollars)	2003	2002
Trade payables and accruals	$ 29,631	$ 18,324
Accrued interest	9,696	9,325
Dividends payable	9,399	5,219
Tenant deposits	2,414	1,530
Deferred income and other	3,270	3,958
	$ 54,410	$ 38,356

Deferred income and other includes $0.3 million, representing the value of below-market leases for properties acquired after September 12, 2003.

10 Convertible Debentures Payable

As at December 31, 2003, the Company has outstanding three series of convertible debentures. All of the debentures are unsecured subordinated debentures, require interest payable semi-annually and are convertible into common stock of the Company at the holders' option until the day prior to the redemption date. In addition, the Company has the right to settle its obligations to repay principal upon redemption or maturity by issuing common stock. If the Company chooses to issue common stock, it is to be valued at 95% of the weighted average trading price for the 20 consecutive trading days ending five days prior to the redemption or maturity date, as may be applicable. In the case of the 7.0% and the 7.25% series, the Company also has the option, subject to regulatory approval, of settling interest due from time to time by way of the issue of common shares valued in the same fashion as with respect to the repayment of principal on those debentures. The following table summarizes the other terms of the convertible debentures.

Interest Rate	Conversion Price	Maturity	Earliest Redemption Date
7.875%	$16.43 per common share	January 31, 2007	January 31, 2003
7.00%	$22.71 per common share	February 28, 2008	February 28, 2004
7.25%	$24.40 per common share	June 30, 2008	June 30, 2004

The following table summarizes the components of the Company's convertible debentures.

(thousands of dollars)	2003			2002		
Interest Rate	Principal	Liability	Equity	Principal	Liability	Equity
8.50%	$ –	$ –	$ –	$ 57,441	$ 15,580	$ 43,557
7.875%	97,522	20,234	81,088	97,522	25,692	74,764
7.00%	99,999	–	102,153	99,999	–	101,314
7.25%	161,702	–	154,316	161,477	–	151,695
	$ 359,223	$ 20,234	$ 337,557	$ 416,439	$ 41,272	$ 371,330

Holders of the Company's 8.50% convertible debentures converted $3.4 million principal amount into 227,854 common shares during 2003 (2002 – nil). The remaining $54.0 million principal amount of the 8.50% convertible debentures was redeemed by the Company through the issuance of 3,647,388 common shares (2002 – nil).

During 2003, 541,252 (2002 – 294,603) common shares were issued to pay interest to holders of the Company's 7.0% convertible debentures.

The Company issued $0.2 million (2002 – $27.6 million) 7.25% convertible debentures in exchange for $0.2 million (2002 – $22.1 million) of the Company's 7.5% debentures. In addition, 831,224 (2002 – 915,054) common shares were issued to pay interest to holders of the Company's 7.25% convertible debentures.

Effective April 1, 2002, the Company issued $28.16 million in principal amount of 7.25% convertible debentures to Gazit as a result of the First Capital Inc. transaction (note 19). The Company issued an additional $5.73 million in principal amount of 7.25% convertible debentures to Gazit on May 30, 2002 (note 19).

11 Debentures Payable

On December 1, 2003, the Company paid $14.7 million, representing the principal outstanding by holders on its 7.5% debentures on maturity. Prior to maturity $0.2 million of the debentures were converted to 7.25% convertible debentures, and $0.3 million were purchased and cancelled by the Company.

12 Shareholders' Equity

(thousands of dollars)	2003	2002
Share capital (a)	$ 422,916	$ 200,183
Equity component of convertible debentures (note 10)	337,557	371,330
Warrants (c)	6,591	10,303
Options and deferred share units (d) (e)	298	–
Cumulative currency translation adjustment (f)	(8,253)	11,697
Deficit	(94,115)	(85,757)
	$ 664,994	$ 507,756

(a) Share Capital

The Company has an unlimited number of authorized preference shares and common shares. The preference shares may be issued from time to time in one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution; preference shares are non-voting and rank in priority to the common shares with respect to dividends and distributions upon dissolution. No preference shares have been issued. The common shares carry one vote each and participate equally in the earnings of the Company and the net assets of the Company upon dissolution. Dividends are payable on the common shares as and when declared by the Board of Directors.

12 Shareholders' Equity
continued

The following table sets forth the particulars of the issued and outstanding shares of the Company:

	Number of Common Shares	Stated Capital (thousands of dollars)
Issued and outstanding at December 31, 2001	15,377,024	$ 154,499
Acquisitions (notes 3 and 19)	673,630	8,286
Payment of interest on convertible debentures	1,209,657	14,205
Exercise of warrants (c)	1,873,406	23,598
Director compensation	9,000	113
Issue costs, net of income taxes of $310,000	–	(518)
Issued and outstanding at December 31, 2002	19,142,717	200,183
Private placements of common shares (b)	5,753,000	84,117
Redemption and conversion of 8.5% convertible debentures	3,875,242	59,300
Acquisitions (note 3)	202,535	2,490
Payment of interest on convertible debentures	1,372,476	18,724
Exercise of warrants (c)	4,651,784	58,604
Exercise of options (d)	112,000	1,428
Issue costs, net of income taxes of $1,136,000	–	(1,930)
Issued and outstanding at December 31, 2003	**35,109,754**	**$ 422,916**

(b) Private Placements of Common Shares

The Company issued 5,753,000 (2002 – nil) common shares through two private placements, at a weighted average price of $14.62 per share for gross proceeds of $84.1 million.

(c) Warrants

On April 10, 2002, the Company completed a rights offering pursuant to which its common shareholders subscribed for 12,301,619 warrants to purchase common shares. A holder of rights was entitled to subscribe for one common share purchase warrant for each 1.25 rights held at a price of $0.05 per warrant. As a result of the warrants having a fair value greater than the subscription price, $10.2 million was charged to the deficit. A corresponding amount, net of issue costs, was recorded under warrants in shareholders' equity. Each warrant entitles the holder to purchase one common share of the Company at a price of $11.80 per share during a three-month exercise period commencing on June 1 and ending on August 31 in each year from 2002 to 2008, on and subject to certain terms and conditions, and may be exercisable in certain other limited circumstances. The maximum number of warrants available under the rights offering was subscribed by holders of common shares. In connection with the rights offering, the conversion prices of the Company's outstanding convertible debentures, and the exercise prices of the Company's outstanding advisory warrants and options, in accordance with the terms of those instruments, were adjusted by a factor of .9667.

A total of 4,651,784 (2002 – 1,873,406) share purchase warrants were exercised at $11.80 per share resulting in proceeds to the Company of $54.9 million (2002 – $22.1 million) during 2003. The equity component of the warrants exercised, $3.7 million (2002 – $1.5 million), was transferred to share capital.

At December 31, 2003, there were 5,776,429 outstanding warrants (2001 – 10,428,213) exercisable at $11.80 per share and 1,000,000 outstanding advisory warrants (2002 – 1,000,000) exercisable at $13.53 per share.

(d) Stock Options

The Company is authorized to grant up to 2,125,000 (2002 – 2,125,000) common shares to the employees, officers and directors of the Company and third party service providers including its Property Manager. Options granted by the Company generally expire ten years from date of grant and vest over three years. The outstanding options have exercise prices ranging from $12.42 to $15.65.

	2003		2002	
		Weighted Average		Weighted Average
	Units	Exercise Price	Units	Exercise Price
Outstanding, beginning of year	1,199,500	$ 12.92	480,000	$ 13.82
Granted	250,500	$ 15.65	774,500	$ 12.42
Exercised	(112,000)	$ 12.75	–	–
Cancelled	(20,000)	$ 13.82	(55,000)	$ 13.82
Outstanding, end of year	1,318,000	$ 13.44	1,199,500	$ 12.92
Options vested at end of year	774,833	$ 13.46	547,500	$ 13.29
Weighted average remaining life (years)	7.5		7.9	

The fair value associated with the options issued during 2003 was calculated using the Black-Scholes Model for option valuation, assuming an average volatility of 18% on the underlying units, a ten-year term to expiry, and a weighted average risk-free interest rate of approximately 3.6%.

In January 2002, the Company granted 774,500 options which had an approximate fair value of $0.5 million, of which $0.1 million would be the pro forma cost for the year ended December 31, 2003, (2002 – $0.2 million), in the determination of pro forma net earnings for the year ended December 31, 2003 of $43.9 million (2002 – $29.4 million) and pro forma basic and diluted net earnings per share of $0.91 (2002 – $0.73).

(e) Share Unit Plans

On June 23, 2003, shareholders of the Company approved a Directors Deferred Share Unit Plan, a Restricted Share Unit Plan and a Chief Executive Officer Restricted Share Unit Plan. A total of 350,000 common shares have been reserved for issuance under these plans. As at December 31, 2003, 14,248 units have been issued under the Directors Deferred Share Unit Plan, and $0.2 million has been recorded as an expense. No units have been issued under the Restricted Share Unit Plan or the Chief Executive Officer Restricted Share Unit Plan.

(f) Cumulative Currency Translation Adjustment

The cumulative currency translation adjustment represents the cumulative unrecognized exchange adjustment on the net assets of the Company's subsidiaries that operate in the United States. The change for the year reflects the impact of U.S. currency movements during the year on these net assets and $2.7 million relating to dilution gains as a result of shares issued by Equity One during 2003.

The rate of exchange in effect on December 31, 2003 was US$1.00 = Cdn$1.30 (December 31, 2002 – Cdn$1.58). The average rate of exchange for 2003 was US$1.00 = Cdn$1.40 (2002 – Cdn$1.57).

13 Interest

(thousands of dollars)	2003	2002
Mortgage and credit facility interest expense	$ 38,722	$ 33,454
Debenture interest expense	1,033	2,734
Convertible debenture interest expense	3,569	4,438
Interest expense	43,324	40,626
Payments on convertible debentures, net of interest expensed	27,434	24,395
Less: convertible debenture interest paid in common shares	(18,724)	(14,205)
Interest capitalized to land and shopping centres under development	3,481	1,796
Other	132	228
Cash interest paid	$ 55,647	$ 52,840

14 Amortization

(thousands of dollars)	2003	2002
Shopping centres	$ 8,368	$ 6,668
Tenant inducements and leasing costs	2,629	1,955
Other	367	236
	11,364	8,859
Deferred financing	1,210	1,072
Amortization	$ 12,574	$ 9,931

15 Income and Other Taxes

The Company's activities are carried out directly and through operating subsidiaries, and partnership ventures and trusts in Canada and the United States. The income tax effect on operations depends on the tax legislation in each country and the operating results of each subsidiary and partnership venture and the parent Company.

The following table summarizes the provision for income and other taxes.

(thousands of dollars)	2003	2002
Provision for income taxes on income at the combined Canadian federal and provincial income tax rates	$ 26,096	$ 18,597
Increase (decrease) in the provision for income taxes due to the following items:		
Large Corporations Tax	1,950	1,850
Change in future income tax rates	(2,202)	(917)
Other	1,235	(734)
Income and other taxes	$ 27,079	$ 18,796

The Company's future income tax assets are summarized as follows:

(thousands of dollars)	2003	2002
Losses available for carry-forward	$ 11,417	$ 6,486
Shopping centres	2,235	11,454
Other assets	1,634	1,303
Canadian and U.S. minimum tax credits	352	352
	$ 15,638	$ 19,595

The Company's future income tax liabilities are summarized as follows:

(thousands of dollars)	2003	2002
Investments	$ 12,750	$ 6,034

At December 31, 2003, the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately $32 million (2002 – $20 million), which have been recognized as future income tax assets and are available to reduce future Canadian taxable income. These tax-loss carry-forwards expire at various dates between December 31, 2006 and December 31, 2010.

16 Per Share Calculations

The following tables set forth the computation of per share amounts.

(thousands of dollars, except per share)	2003	2002
Basic income		
Net income	$ 44,026	$ 29,634
Accretion on equity component of convertible debentures, net of tax	(21,877)	(17,159)
Basic net income available to common shareholders	$ 22,149	$ 12,475
Diluted income		
Net income for the period	$ 44,026	$ 29,634
Interest expense recorded on liability portion of convertible debentures, net of tax	2,231	2,525
Diluted net income available to common shareholders	$ 46,257	$ 32,159
Denominator		
Weighted average shares outstanding for basic per share amounts	24,323,968	16,833,910
Conversion of outstanding convertible debentures	20,560,914	19,386,382
Outstanding share purchase warrants	1,405,870	205,976
Outstanding options	86,959	–
Denominator for diluted net income available to common shareholders	46,377,711	36,426,268
Basic and diluted earnings per share	$ 0.91	$ 0.74

The following securities were not included in the diluted per share calculation as the effect would have been anti-dilutive.

		Number of shares if converted or exercised	
	Exercise Price	2003	2002
Common share options	$ 12.42	–	774,500
Advisory warrants	$ 13.53	–	1,000,000
Common share options	$ 13.82	–	425,000
Common share options	$ 15.59	11,500	–
Common share options	$ 15.65	239,000	–

17 Risk Management and Fair Values

RISK MANAGEMENT

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

(a) Interest Rate Risk

The Company attempts to structure its financings so as to stagger the maturities of its debt, thereby mitigating its exposure to interest rate fluctuations.

(b) Credit Risk

Credit risk arises from the possibility that tenants and/or debtors may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss by ensuring that its tenant mix is diversified, by limiting its exposure to any one tenant and by the hypothecated properties. Thorough credit assessments are conducted in respect of all new leasing.

(c) Currency Risk

The Company maintains its accounts in Canadian dollars. However, a portion of its operations are located in the United States and therefore the Company is subject to foreign currency fluctuations which may, from time to time, impact its financial position and results. The Company's U.S. operations are financed in part by U.S. dollar-denominated credit facilities, which are serviced by the cash flow generated by the Company's dividends from Equity One. This reduces the Company's exposure to fluctuations in foreign currency exchange rates. The Company has not hedged its net U.S. dollar currency risk. As a result, a strengthening of the Canadian dollar would result in a reduction in the carrying value of the Company's net assets in the United States.

FAIR VALUES

The fair values of the majority of the Company's financial assets and liabilities, representing net working capital, approximate their recorded values at December 31, 2003 and 2002 due to their short-term nature.

The fair value of the Company's loans and mortgages receivable approximates carrying value. The fair value of the Company's mortgages and credit facilities approximates carrying value. Based on publicly traded listing prices, as at December 31, 2003, the market value of the principal amount of the convertible debentures was $355.9 million (2002 – $364.4 million).

At December 31, 2003, there are outstanding forward exchange contracts to sell a notional amount of US$7.0 million, maturing over the next six months at a weighted average exchange rate of Cdn$1.33. The fair value of the outstanding forward exchange contracts, based on cash settlement requirements at December 31, 2003, is a positive value of $0.2 million due to changes in the foreign currency exchange rate since the date on which the contracts were made.

The fair value of the Company's interest rate swap and cap contracts is a negative value of approximately $0.6 million due to changes in interest rates since the contracts were entered into.

18 Segmented Information

The Company and its subsidiaries operate in the shopping centre segment of the real estate industry in both Canada and the United States.

Operating income by geographic segment for the year ended December 31, 2003, is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
Property rental revenue	$ 154,656	$ –	$ 154,656
Property operating costs	58,799	–	58,799
Net operating income	95,857	–	95,857
Equity income from Equity One, Inc.	–	19,095	19,095
Interest and other income	2,668	47	2,715
Interest expense	38,931	4,393	43,324
Corporate expenses	8,110	465	8,575
Operating income before amortization	51,484	14,284	65,768
Amortization	12,473	101	12,574
Operating income	$ 39,011	$ 14,183	$ 53,194

Operating income by geographic segment for the year ended December 31, 2002, is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
Property rental revenue	$ 125,635	$ –	$ 125,635
Property operating costs	47,318	–	47,318
Net operating income	78,317	–	78,317
Equity income from Equity One, Inc.	–	21,606	21,606
Interest and other income	2,359	248	2,607
Interest expense	36,276	4,350	40,626
Corporate expenses	5,932	901	6,833
Operating income before amortization	38,468	16,603	55,071
Amortization	9,847	84	9,931
Operating income	$ 28,621	$ 16,519	$ 45,140

19 First Capital Inc. Transaction

Effective April 1, 2002, the Company purchased from its largest shareholder, Gazit 1997 Inc. ("Gazit"), all of the issued and outstanding common shares of First Capital Inc. ("FCI"). The Company received a valuation of FCI and an independent opinion as to the fairness, from a financial point of view, of the consideration paid. The acquisition was accounted for using the purchase method. Mortgages payable secured by seven of the eight properties totalled $22.9 million, with a weighted average interest rate of 7.7%. The aggregate purchase price of $31.65 million for the FCI shares was satisfied through the issuance of 601,630 common shares of the Company (at $12.30 a share) and $28.16 million in principal amount of the Company's 7.25% convertible debentures. The amount of 7.25% convertible debentures was calculated based on a price of $84.34 per $100 principal amount. In addition, in connection with post-closing funding requirements of FCI, the

19 First Capital Inc. Transaction continued

Company required Gazit to provide additional cash of $5 million in return for the issuance of an additional $5.73 million of 7.25% convertible debentures based on a price of $84.34 per $100 principal amount plus accrued interest.

The consideration paid and received on the acquisition was as follows:

(thousands of dollars)	
First Capital Realty Inc. common shares	$ 7,400
First Capital Realty Inc. 7.25% convertible debentures	23,747
7.25% convertible debentures interest accrued	503
Consideration paid	$ 31,650
Shopping centres	$ 54,763
Land and shopping centres under development	1,850
Working capital, including cash of $1,657	1,607
Mortgages payable	(22,872)
Future income tax liability	(3,698)
Consideration received	$ 31,650

20 Joint Ventures

The Company was a participant in 14 joint ventures that own land, shopping centres, and shopping centres under development as at December 31, 2003. The Company's participation in these joint ventures ranges from 50% to 80%.

The following amounts are included in the consolidated financial statements and represent the Company's proportionate interest in the financial accounts of the joint ventures:

(thousands of dollars)	2003	2002
Assets	$ 88,328	$ 59,855
Liabilities	$ 52,730	$ 29,743
Revenues	$ 7,788	$ 7,912
Expenses	$ 3,515	$ 5,157
Cash flow provided by (used in):		
Operating activities	$ 4,753	$ 3,012
Investing activities	$ (33,118)	$ (17,276)
Financing activities	$ 26,477	$ 8,098

The Company is contingently liable for certain of the obligations of the partnership ventures and all of the net assets of the partnership ventures are available for the purpose of satisfying such obligations and guarantees (see note 22 (a)).

21 Property Management Fees

Centrecorp Management Services Limited (the "Property Manager") is responsible for all property management functions, including property administration, maintenance and leasing.

In December 2001, the Company formed a joint venture with the Property Manager to provide property management, operations, leasing and project management services in respect of shopping centre properties located in the province of Québec. During 2003, the Company earned $0.2 million (2002 – $0.1 million) in income from its 50% interest in the joint venture.

22 Contingencies

(a) The Company is contingently liable, jointly and severally for approximately $19.1 million (2002 – $9.7 million) to various lenders in connection with loans advanced to its joint-venture partners secured by the partners' interest in the joint ventures.

(b) The Company is also contingently liable for letters of credit in the amount of $11.6 million (2002 – $8.5 million) issued in the ordinary course of business.

23 Subsequent Events

(a) On March 1, 2004, in accordance with the terms of the 7.0% convertible debentures, 229,051 common shares were issued to pay interest to holders of the Company's 7.0% convertible debentures.

(b) On March 11, 2004, the Company issued 3,366,000 common shares in a bought deal with a syndicate of underwriters, at a price of $16.30 per common share, for total gross proceeds of approximately $54.9 million.

(c) Subsequent to year end, the Company purchased ten properties and two land sites for development for $76.5 million. Consideration paid was $45.4 million in cash, $9.8 million in assumed mortgages, $19.3 million in new mortgage financing and a $2.0 million vendor take back mortgage.

(d) Subsequent to year end, 2,481,140 share purchase warrants were exercised at $11.80, resulting in the issuance of 2,481,140 common shares, and proceeds to the Company of $29.3 million.

24 Comparative Amounts

Certain comparative amounts have been reclassified to reflect the current year's presentation.

Corporate Governance

Sound corporate governance practices are an important part of First Capital's corporate culture. The following are highlights of the Company's approach to governance:

The Board of Directors and management believe that sound and effective corporate governance is essential to the Company's performance.

- The Board of Directors and management believe that sound and effective corporate governance is essential to the Company's performance. The Board has been reviewing its approach to corporate governance in light of recent regulatory developments to ensure that its commitment to high standards of corporate governance is maintained.

- The Board of Directors supervises the conduct of the affairs of the Company. In carrying out its responsibilities, the Board appoints the senior executives of the Company and meets with them on a regular basis. Along with those matters which by law must be approved by the Board, key strategic decisions are also submitted by management to the Board for approval. In addition to approving specific corporate actions, the Board reviews and approves the reports issued to shareholders, including annual and interim financial statements, as well as materials prepared for shareholders' meetings. The Board also approves the Company's overall business strategies and annual business plans for achieving its objectives.

- The Board is currently comprised of ten directors, eight of whom are unrelated and independent.

- The Board has established two committees comprised entirely of unrelated and independent directors to assist it in fulfilling its responsibilities:

  The Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities in relation to: the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements related to financial reporting; the qualifications, independence and performance of the Company's auditor; the design and implementation of internal controls and disclosure controls; and any additional matters delegated to the Audit Committee by the Board. All of the members of the Audit Committee are financially literate.

  The Compensation and Corporate Governance Committee is responsible for assisting the Board in fulfilling its oversight responsibilities in relation to: the appointment, development, compensation and retention of senior management; the management of employee benefit plans; the Company's overall approach to corporate governance including the size, composition and structure of the Board and its committees; education for directors; related party transactions and other matters involving possible conflicts of interest; and any additional matters delegated to the Compensation and Corporate Governance Committee by the Board.

Board of Directors

Chaim Katzman
Chairman
First Capital Realty Inc.
Aventura, Florida

Chairman of the Company. Also serves as Chairman and Chief Executive Officer of Equity One, Inc. and Chairman of Gazit-Globe, the Company's largest shareholder.

Steven K. Ranson, C.A.
President and Chief Executive Officer
Home Equity Income Trust
Toronto, Ontario

President and Chief Executive Officer, Home Equity Income Trust. Mr. Ranson has over 20 years experience in financial services and capital markets.

Dori J. Segal
President and Chief Executive Officer
First Capital Realty Inc.
Toronto, Ontario

President and Chief Executive Officer of the Company. Also, President and Director of Gazit-Globe, and Director of Equity One, Inc.

Moshe Ronen
Barrister and Solicitor
Thornhill, Ontario

Legal practice focused on business and real estate law and public policy. Mr. Ronen is a member of the Board of Directors of several institutions including North York General Hospital and the Jewish National Fund.

Jon Hagan, C.A.
Consultant – JN Hagan Consulting
Toronto, Ontario

Principal, JN Hagan Consulting, Director of Bentall Corporation. Mr. Hagan has over 25 years experience with leading Canadian real estate companies. Mr. Hagan has served in senior positions at real estate corporations including Cadillac Fairview Corporation, Empire Company Limited and Cambridge Shopping Centres Limited.

Gary M. Samuel
Partner, Crown Realty Partners
Toronto, Ontario

Partner in Crown Realty, a private real estate investment and management company. Previously, Chief Executive Officer of Royop Properties Corporation and Chief Executive Officer of Canadian Real Estate Investment Trust.

John Harris
Private Real Estate Investor
Toronto, Ontario

A private real estate investor with over 20 years experience in the real estate investment and capital markets. Mr. Harris served in senior positions at real estate investment banking firms including Merrill Lynch Canada Inc., Midland Walwyn and Deutsche Bank.

Richard J. Steinberg
Partner, Fasken Martineau DuMoulin LLP
Toronto, Ontario

Legal practice focused on securities law, corporate finance and mergers and acquisitions. Serves on the Legal Advisory Group to the General Counsel of the Ontario Securities Commission.

Nathan Hetz, C.P.A.
Chief Executive Officer and Director
Alony Hetz Properties and Investments Ltd.
Ramat Gan, Israel

Chief Executive Officer and Director of Alony Hetz Properties, a real estate investment company. Also serves as a Director of Equity One, Inc. Previously a Director of United Mizrahi Bank Ltd.

Seymour Temkin, C.A.
Senior Business Advisor, Goodmans LLP
Toronto, Ontario

Senior Business Advisor with the REITs and Income Funds Group at Goodmans. Previously headed the Canadian Real Estate Practice at Deloitte & Touche in Canada for 15 years. Mr. Temkin has over 30 years of public accounting experience.

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ANNUAL MEETING

The annual general meeting of shareholders will be held on June 8, 2004 at the TSX Conference Centre 130 King Street West Toronto, Ontario at 4:30 p.m.

TORONTO STOCK EXCHANGE LISTINGS

Common Shares:	FCR
7.875% convertible debentures:	FCR.DB.B
7% convertible debentures:	FCR.DB.C
7.25% convertible debentures:	FCR.DB.D
Warrants:	FCR.WT

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